DEMOCRATIC CAPITALISM

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by David W. Raudenbush

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To all who still believe
in democracy and capitalism

Have faith and pursue the unknown end.

—HOLMES

If we would guide by the light of reason,
we must let our minds be bold.

—BRANDEIS

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FOREWORD

IF BALZAC had not pre-empted it, I might have considered *The Human Comedy* as a possible subtitle for the pages which follow. They could scarcely be described as witty or amusing. But the repeated spectacle of man's physical grasp falling short of his moral reach has been described as comic, and its projection into the future would not be less so.

Then, too, there is always the hope that somehow, some day, the spectacle may end in fulfillment instead of frustration. Fulfillment, also, can be projected. If the experiment fails as literal prediction, it may yet succeed as allegory, or sufficiently so to warrant borrowing Balzac's sly allusion to Dante's mighty poem.

It will be agreed, I think, that we, like Dante, find ourselves in mid-passage within a somber grove, having somehow lost the direct way. There will be plenty of disagreement as to how to get out, some even as to the specific destination to be sought; but none that further travel is both desirable and unavoidable. A particular description of Hell, Purgatory and Paradise will never command universal assent. It can, however, be suggestive, even if only in a negative sense. The very process of criticism and correction has deepened insight before now, and provoked inspiration that otherwise might have slumbered.

If such a purpose, and no more, is served by this book, it will have been more than justified. For its true concern is that salvation be recognized as a by-product of effort directed to more mundane objectives; not that its illustrative program be accepted as definitive.

David W. Raudenbush

St. Paul, Minnesota,
January, 1946.

DEMOCRATIC CAPITALISM

PART ONE: THE THEORY OF THE MANAGERIAL REVOLUTION

I

The Problem

WHEN the Soviet Union attacked Finland in November, 1939, a wave of indignation swept the United States. The traditional American sympathy for the underdog merged with a partiality for democracies that pay their war debts. We stuffed the blue-crossed "Help Finland" boxes with currency, and were moved to tears by the Lunts in *There Shall Be No Night* and by the almost hourly broadcasts of *Finlandia.*

When the Red Army stopped Hitler at Stalingrad in the autumn of 1942, a wave of wild joy swept the United States. The traditional American sympathy for the underdog merged with a sudden hope that, after all, the grim military situation might quickly be retrieved. We set up a popular clamor for an immediate "second front." In American eyes almost overnight Marshals Zhukov, Konev and Malinovsky became the legendary heroes that Generals MacArthur and Eisenhower already were. Joseph Stalin was viewed as the great emancipator of eastern Europe.

Between these two events no significant changes had occurred in either the personnel or the policies of the Soviet government.

When at last the time arrived to open the long-awaited sec-

ond front in the West, there was anxiety over the military phases of the undertaking, but none over its social consequences. Of course we and the British would be hailed as the rescuers of the West, the counterparts of the Russians in the East, equal in stature and prestige. President Roosevelt had earlier proposed at a press conference that the colorless label of "Second World War" be abandoned in favor of "The War of Liberation." The overthrow of Mussolini and the vigor of the resistance movements both provided circumstantial support for this attitude.

Yet despite brilliant military success in western Europe and the Mediterranean, the populations concerned showed little, if any, more enthusiasm for liberation than they had originally shown for national defense. True, there were flowers from individual members of the populace and there was armed support of sorts from provisional governments hastily installed. But from significantly large segments of the newly-freed masses there emerged apathy at best, and occasional rioting as resistance groups refused to lay down their weapons. Notably in Greece there was actual use of underground arms against a British occupying force, fully as determined and effective as the earlier use against a German occupying force. Most sinister of all was the tendency of the diplomatic spoils of even Anglo-American victories to drift eastward rather than westward.

What was the meaning of all this? Could it be that the peoples of the once "free" world actually preferred oppression to liberty? Was it possible that democracy had lost its sales appeal? Such questions as these were very disturbing, for they suggested that the very well-spring of our war aims in Europe (whatever they might be) had, in some mysterious way, become polluted in the eyes of Europeans. They reminded us of what at least one competent observer had explicitly demonstrated prior to June 22, 1941, namely, that as far back as 1917 one of the great divides of history had apparently been crossed.

Expert analysis apart, it was strange that the organs of pub-

lic opinion had been taken by surprise in 1944, in view of their rather general agreement in 1940 that the European war was something more than a war between nations; that it included internal conflicts between rival classes, or between adherents to rival ideologies, within a single nation; and was, to that extent, a symptom of revolution. If this interpretation was correct, why expect the mere expulsion of the nazis to work a cure of the revolutionary fever? Resistance groups had developed during the occupation, to be sure. But the record disclosed a social philosophy in most instances more like that of Moscow than like that of London or Washington, and in other cases a point of view typified by the notorious prewar Paris newspaper headline, *"Plûtot Hitler que Blum."*

In short, could a successful counter-invasion revive anything more than what remained to be revived: a struggle between elements called "fascist" and elements called "socialist" or "communist," in which elements called "democratic" had long proved to be ineffectual? Does a discredited ideology ever again become acceptable without any alterations of content or emphasis or in the practices it purports to reflect?

Another trend, internal but concurrent with these events overseas, which received close but wholly independent attention from popular commentators, was the unfolding of a domestic labor problem. Strikes developed over such issues as the maintenance of membership clauses in union contracts and a consequent slump in war production threatened. The press and radio became indignant but had little to suggest except coercion. No journalists professed to see any connection between these strikes and a legitimate nervousness over the postwar situation of labor, even though at the same time they reported the deep concern of the government and industrialists over the problem of providing sixty million permanent, postwar jobs. Yet the possible relation between the apparent rebuff to democracy abroad and the anxiety over employment at home was not remarked.

Specifically, it did not occur to anybody that what the Eu-

ropeans might be rejecting was not democracy but capitalism, with which democracy had long been associated; that what they might be exhibiting was not a dislike of personal and political freedom, but a belief that such freedom cannot successfully be combined with economic security. Faced with a choice, actual or presumed, between liberty and security as mutually exclusive ideals, Europe seemed to be gravitating towards security. For the peoples of the overrun countries the memory of democracy was also a memory of unemployment during the great depression of the 1930's, when, even in this country, it was widely observed that one cannot eat the Constitution.

Developments in the Far East have been scarcely more comforting than those in Europe. The war against Japan, it is true, came to an unexpectedly early and sudden end; but only because of the dubious advantages of the atomic bomb. It is also true that the temporary retention of the Japanese institutions of government and the sole command of General MacArthur have obviated the major inadequacies and confusions incident to the four-way occupation and administration of Germany. But while the atomic bomb saved countless American lives and many months of hard fighting, and perhaps motivated in part the Sino-Soviet Pact of October, 1945, it has had other and less admirable consequences. It brought about a violation by the Soviet Union of its nonaggression pact with Japan, which, though denounced in April, 1945, had eight months more to run at the time of the declaration of war in August. It did not save the Sino-Soviet Pact from early subversions through the agency of the Chinese communists, who, rather than the troops of the National Government, began to take over Manchuria from the Red Army.

Most far-reaching and fateful consequence of all is the decision it forced upon the United States (concurred in by Great Britain and Canada) to preserve whatever atomic secrets there are and thereby provoke an international race in nuclear research, rather than to share them with other nations and thus accelerate its own exposure to attack. Closely

allied to this dilemma is the problem of peacetime military service. Whether or not to inaugurate a program of military preparedness and, if so, how to relate it to the seeming requirements of an atomic age, are questions equally controversial and elusive. The one development indicative of an attitude which may foreshadow the answer is the hasty disbandment of the armies and naval forces which won America's share of the victory.

Hardly less germane to the issue of new wars and the continuing revolution, if any, is the whole complex of economic maladjustments still defying solution. We see jobs going begging in the same communities where reconversion unemployment is piling up. In highly important sectors now through with reconversion and ready to move ahead, no wheels turn because of strikes. Wages and prices are everywhere straining at the wartime leashes which held them in check, and threaten to chase each other up an inflation spiral leading to possible disaster. Over-all controls are being diligently fashioned and eagerly proposed by economists in and out of government. In Washington, the much-advertised management-labor conference was shattered by multiple internal dissension. The government has been forced to propose to Congress a labor disputes bill unpopular with labor.

It is, then, timely to ask ourselves what the United States should do in the light of what is happening in the world, and to do so in terms so specific and free of emotion that the issues may stand forth in stark reality, untinctured by wishfulness. Naturally no conclusion is possible without first discerning, as nearly as may be, what *is* happening in the present-day world (which requires reference to the past) and, second, comparing the promise of the new with the fulfillment of the old (actual and potential), in terms of relative social desirability. There is thus involved a threefold task concerned, respectively, with a description, an evaluation and a program.

I wish I could avoid the first part of the task, because it has already been performed many times; most ably, as far as I

can judge, in the extraordinarily lucid, comprehensive yet succinct analysis of Professor James Burnham published in 1941 under the title: *The Managerial Revolution*.[1] If I could prescribe additional reading to those who may become interested in this book, I should stipulate that Professor Burnham's book be read first. Having no such power, however, and being unable to assume a familiarity with the theory of the "managerial revolution," I am constrained to summarize it, since I agree that it is valid and that we are drifting in the direction it indicates. Partly for convenience and partly because of intrinsic aptness, I adopt Professor Burnham's nomenclature along with his theory.

The second part of my task is also rather unwelcome, although for a different reason. A comparison of one social order with another, especially with another not yet fully matured in the area of my principal concern, in terms of relative social desirability, seems to impose obligations either as moralist or prophet more formidable than I would care to undertake. I therefore limit my essay into these alien fields by adopting a severely pragmatic approach and standard of judgment. I simply assume that most people would prefer a social order which satisfies with fair efficiency the largest number of demands which may reasonably be expected to be made upon it, to one which excels in some respects but falls short in the aggregate. Hence there is no discussion of social justice in the abstract. For the purposes of this book, "the greatest good of the greatest number" still constitutes social justice; provided, however, that "the greatest number" is understood as referring to individuals by absolute count, without regard to membership in any particular social class or group.

Concerning the program itself, which naturally makes up the bulk of the book, I anticipate condemnation for either one of two reasons which are diametrically opposed. The first is that my proposal is theoretical, untried, radical and visionary; hence that it is both impractical and repugnant. The

[1] New York: The John Day Company, 1941.

second is that it is too simple reasonably to entail the far-reaching consequences claimed for it; hence inadequate in that it falls far short of being the majestic sort of blueprint the complexities of modern society require.

To readers inclined to the first point of view, it may be helpful to point out in advance that both the technique of the program as a whole and the specific devices it employs have been separately tested in limited fields over a period of many years and have worked, often with spectacular success. The only novelty lies in the combining of these devices and in the enlarged scope envisaged for them. In either of these two respects the program is open to the charge that it is theoretical and unproved; but so would be any plan or, for that matter, any new experiment, however restricted. If a plausible case for this plan can be made, on grounds which of necessity are theoretical in advance of actual trial, criticism, to be legitimate, must itself be grounded on theory, and must not reject out of hand all theory as an admissible medium of debate. Otherwise a preference for the *status quo,* as against any conceivable rearrangement, is indicated.

To the second kind of objection I plead guilty in so far as it points out the lack of a blueprint. I will go further by asserting that the lack is deliberate, and that the plan might be described as a formula for the avoidance of blueprints. This design proceeds from both practical and philosophical considerations. On the practical side, I am convinced that no blueprint will work, automatically or at all, unless all the coercive powers of the state are arrayed behind it in a pattern of complete regimentation. On the philosophical side, I cannot accept such an ordering of human affairs except as a last resort; not for subjective reasons, but because it would not meet the objective test of maximum satisfaction of interclass interests as well as the alternative arrangement I propose.

The strength of the alternative arrangement derives from the fact that it is far easier and much more agreeable for all concerned to induce the self-control of human activities than it is to control them directly and in detail. The first method

involves two relatively simple adjustments—just two—whereas the second would require the continuous employment of an army of "experts," consultants, investigators, trial examiners, and the like. The superiority of the first technique is roughly comparable to that of the hydraulic ram as against the bucket brigade in lifting water over a hill.

A final word should be said for the benefit of those who remain skeptical because of the lack of bibliography and the paucity of footnotes. The explanation lies in the nature of the discussion. The materials are recent and current events and familiar facts of history which presumably require no documentation, but our concern is with the future rather than with the past. The future seldom receives explicit consideration in the multitude of scholarly studies of western civilization which have appeared in recent years, and then usually in terms too general to be clearly susceptible of either confirmation or refutation by the march of events. Such books, though often immensely valuable as history, are not very helpful as guides to national policy, which is bound to postulate the future as best it can, in terms alternative and tentative, to be sure, but necessarily concrete.

I must, however, acknowledge a general indebtedness to one monumental study which bears as intimately upon one half of my affirmative argument as Professor Burnham's book bears upon its general framework. The work in question is The Brookings Institution's comprehensive survey of the factors working against the full utilization of American productive capacity over a long period of time prior to the 1930's, with its conclusions and recommendations.[1] This is not to imply that I have not been influenced by any other thinking on or near various aspects of my subject. Rather obviously I have been influenced by a great deal of it, and make specific acknowledgments, where appropriate, in the course of the text. For the most part, however, I have been forced to travel alone, since

[1] Washington, D.C. The Brookings Institution: *America's Capacity to Produce*, 1934; *America's Capacity to Consume*, 1934; *The Formation of Capital*, 1935; *Income and Economic Progress*, 1935.

the subject as a whole is an intensely practical one and does not lend itself to the orthodox methods of scholarship.

It is as well, perhaps, that this is so. The records of the past, the stock in trade of historical scholarship, are replete with ideological utterances quite as likely, from their very nature, to mislead as to clarify. We all know that this is true so far as statements of policy by responsible leaders are concerned. How many times did Hitler say, "This is the last territorial demand I have to make in Europe"? We know now that he was insincere, but for six months after Munich the people and governments of Great Britain and France believed that they had achieved "peace in our time." President Roosevelt was presumably sincere when he reiterated, in the 1940 campaign, "again and again and again," that American boys would not be sent to foreign wars; but he, also, was traduced by events. The French proletariat which overthrew an outworn feudal aristocracy in 1789 did not rebel in behalf of the *bourgeoisie* but in the belief that they would attain for themselves liberty, equality and fraternity. The leading ideologists of the period (Voltaire, Rousseau, Montesquieu and Diderot) had indirectly told them so. Yet what they got in the political field was Napoleon, and in the economic field, *bourgeois* capitalism.

I should be the last to deny a place in history to ideologies and ideologists, but I do believe that they shed more light on the past and present than they do on the future, which is the problem of this book. We must, in other words, distinguish between what men actually do and what they say they should do, or want to do, or intend to do, or must do or not do. Solemnly declared rights and obligations, spelled out in treaties, constitutions and statutes, are not a reliable guide to future conduct, even though they do reflect the prevailing temper of the times which produced them. Unexercised legal rights and unperformed legal duties or obligations do not enter into the warp and woof of daily living, which alone discloses the pattern of events.

To discern the pattern, therefore, no special aptitude is required beyond a willingness to face facts as they are instead

of as they are represented or desired to be, and to fit them together in the only way they will fit without forcing. To prophesy from a pattern once established is a more precarious undertaking, since continuity must be assumed, or at least an absence of significant change. Yet prophecy is not impossible. Changes or beginning changes usually manifest themselves gradually, and time passes while they are growing to significant proportions. Events have a logic all their own. A trend once set in motion grows in volume as it picks up speed. The momentum of history is tremendous. It is precisely that fact which may make the following discussion too late to serve a useful purpose.

II

Symptoms of the Decay of Capitalism[1]

IF "REVOLUTION" may be defined as an acceleration of the rate of change in social institutions, there can be no doubt that the commentators were right in viewing the Second World War as a symptom of revolution. In political organization and in economic procedure as well as in the realm of applied science, the world on the eve of the Second World War was obviously wholly different in large areas and largely different in all areas from what it had been on the eve of the First World War or for many years before that. But there has been no general agreement as to the character of the changes under way, or, indeed, upon the question whether they are related and coherent or merely random and fortuitous. Yet an answer must be sought. For upon it depends both our hope of understanding what is taking place and our ability to formulate a policy suitable to a society in transition.

If a new society is in the making, then clearly it is emerging out of what existed before, which we know as capitalism; just as capitalism itself developed out of the earlier society known as feudalism. Our first task, therefore, is to analyze those features of capitalist society—economic, political and ideological—which appear to be relevant.

[1] The material of this chapter is based upon *The Managerial Revolution, ubi supra*. All numbers in parentheses refer to the pages of that book.

On the economic side, capitalism differs from feudalism in seven fundamental respects:

"1. Production in capitalist economy is *commodity production*"; that is to say, the production of thousands of goods and services which, despite their diversity, may be "directly compared with one another in terms of an abstract property—sometimes called their 'exchange value'—[usually] represented by their monetary *price*" (p. 11). In feudal society, on the other hand, production was characteristically for direct consumption by the producer or his overlord, and entered into exchange (if at all) only when there happened to be a surplus, and then only by direct barter for something else consumable or usable.

"2. The all-important, all-pervasive role of *money* is an equally obvious feature of capitalist economy, is indeed a necessary consequence of commodity production" (p. 12). Money is not a capitalist invention, but in no earlier society did it play anywhere near the part assigned to it by capitalism. During the Middle Ages, by way of contrast, "the great majority of people . . . never saw any money at all during their entire lives" (p. 12).

3. Money, in modern times, serves not merely as a medium of exchange, but the wholly distinct function of capital—whence the name "capitalism." In feudal times money rarely was put to a productive use, that is, to "make money" or to "realize a profit" in the modern sense. An exception existed in the financing by bankers of the voyages of merchant traders, but the investment took the form of a loan rather than a purchase of a share in a venture. It is noteworthy, moreover, that this is the sole use for which the lending of money at interest was countenanced by contemporary theologians and philosophers. Loans for other purposes, of which the most typical were the waging of wars and the building of castles, were roundly condemned as sinful (usurious) and for good reason—such purposes threatened the very fabric of medieval society.

"4. Under capitalism, production is carried on *for profit*"

(p. 15), and the realization of some profit, however modest, is necessary to the continued functioning of any capitalist enterprise. Under feudalism this was by no means the case. Production was carried on with reference to the known or anticipated needs of specific individuals—the producer himself and those to whom he owed feudal dues—or, in the case of artisans, only on order from an individual customer who furnished both the specifications and the raw materials.

"5. Capitalist economy is further characterized by a special kind of periodic economic crisis" (p. 15) known as a "depression" which, whatever the prime causes (a favorite subject of dispute among economists), is conceded to result immediately from a lack of balance between supply and demand in a context of economic forces peculiar to capitalism. While dislocations of production and consumption also occurred in earlier types of society, they did not come about so frequently, continue so long or affect such large geographical areas. They were due, moreover, to natural causes (drought, famine, plague, etc.) rather than to human causes—with the single exception of war.

"6. In capitalist economy, production as a whole is regulated, so far as it is regulated, by 'the market,' both the internal and the international market" (p. 16). It is true that in the earliest or "mercantilist" stage and in the most recent or "finance-capitalist" stage of capitalism, both state regulation and various monopolistic devices have sought or asserted some measure of control over isolated segments of production. These incursions have been partial and incomplete, however, and necessarily so, since obviously had they been total and exhaustive there would have resulted a "planned" economy wholly incompatible with the nature of capitalism.

"7. The institutional relations peculiar to capitalist economy serve, finally, to stratify large sections of the population roughly into two special classes," known respectively as "capital" and "labor." Individuals can and do pass from the one to the other (and sometimes back again), but the two classes are, nevertheless, functionally distinct although mutually de-

pendent. The incidents of the two classes are too familiar to require enumeration except for the sake of emphasis. The capitalists "own . . . the instruments of production . . . and hire the labor of others to operate these instruments, retaining the ownership rights in the product of that labor" (pp. 16-17). The worker is a "free" laborer in the sense that he is " 'freed from' the instruments of production" (unlike the medieval serf or villein, who could not leave the soil) and consequently may sell his labor to the highest bidder, "renouncing, however, ownership rights in the product of [his] labor" (p. 17). The medieval artisan, on the other hand, who corresponds most nearly to the modern industrial worker, owned his own tools and was "self-employed."

It is more difficult to define with precision the political characteristics of capitalist society. There has been considerable diversity in different areas at the same time and in the same area at different times. There are, however, six features "which are either common to capitalist society throughout its history or typical of the chief capitalist powers:

"1. The political division of capitalist society has been into a comparatively large number of *national* states" (p. 18), claiming absolute sovereignty and exercising jurisdiction over persons and things within their respective boundaries through the agency of an institutionalized individual (the crown) or group (parliament) or combination of the two. In sharpest contrast to this kind of arrangement was medieval society, which knew no national citizenship whatever, but was loosely held together spiritually by the Church universal, and temporally through allegiance to a hierarchy of feudal suzerains, i.e., a specific individual in each case and not an institution.

2. Although capitalist states originally embraced within their areas but a small portion of the earth's surface, they quickly overran and divided between them (rarely amicably) very large areas of the sparsely settled or undeveloped noncapitalist regions, and erected within them political structures known as colonies or dominions and sometimes

subordinate states called "protectorates." This expansionist urge was primarily economic (the need for raw materials or markets) but, although the backward areas were brought into the capitalist family and, indeed, were necessary to it, the advantages of developed capitalism, both political and economic, were extended to them only gradually and usually *reluctantly* (pp. 20-21).

3. While the state claimed ultimate and absolute authority within its territory through the concept of sovereignty, it is important that in the states of later development, known as democracies, this abstract quality of sovereignty is thought of as being vested in the people themselves. In such communities the central apparatus of the state (legislative assembly, administrative departments, courts, police, armed forces, etc.) is juridically limited in the scope of its activities by a fundamental charter or organic law. Even in states retaining the trappings and some of the attributes of monarchy, moreover, the actual exercise of political power has been similarly limited to matters of "governmental" concern (e.g., internal security, foreign affairs, war, coinage, the mails, etc.). In all capitalist states the intervention of government in economic affairs has been held to a *minimum*. The very nature of the capitalist economy, based as it was on rights of private property and individual initiative, required such forbearance on the part of the state. There were a few interferences, in cases of business "affected with the public interest" such as railroads, which were subjected to regulation or were actually acquired by the state. But for the most part the state's ventures into economic fields were designed to help private business, as by granting subsidies or imposing tariffs. "In the economic field, we might say, the state always appeared as subordinate to, as the handmaiden of, the capitalists, of 'business,' not as their master" (p. 22).

4. Accompanying the rise of the self-consciously democratic states was a shift in the "locus of sovereignty" (p. 22), in the older monarchical states, from the crown to parliament, and "particularly to the lower house of parliament. .

The lower house . . . was the recognized representative of the 'burgess,' the *bourgeoisie*—the merchants, bankers, and industrialists, in short, the capitalist class. . . . The growing institutional supremacy of the lower house of parliament, therefore, over the feudal lords and later over the king . . . was the parallel in the political field to the supplanting of feudal relations by capitalist relations in the economic field" (p. 23).

5. Despite the rise of political democracy concurrently with capitalism, it never became complete or all-pervasive. "It did not extend to economic and social relations, for that was excluded by the character of those relations. Even in the political field it has been restricted . . . to a portion of the adult population" (a notable illustration is the exclusion of women until very recently in all states, and it still obtains in some). "At all times it was intolerant of any serious opposition opinion going beyond the general structure of capitalist institutions" (p. 24). Although parallel in development, "political democracy and capitalism are not the same thing" (p. 24) and must be differentiated, not only for historical reasons, but also and chiefly because the distinction is essential to a meaningful analysis of the world of today.

"6. The legal system of capitalist society, enforced by the state, was, of course, such as to uphold the general structure of capitalist society and to set up and enforce rules for acting within that structure" (p. 24).

A description of capitalism relevant to the purposes of this book would be incomplete without some reference to capitalist ideologies. All societies have had ideologies—could not, indeed, have existed without them—for they sum up the hopes, wishes, fears, ideals by which the particular society in each case has lived. The accepted ideologies are, therefore, an expression of the dominant mentality and serve as an "indispensable verbal cement holding the fabric of any given type of society together. . . . An ideology is *not* a scientific theory" (p. 25). It is a moral theory, and therefore "nonscientific and often antiscientific" (p. 25), as is true, for example, of

the Nazi view concerning German racial superiority. An ideology is not a "hypothesis about [past] events" (p. 25) or a forecast of events to come, yet it has great historical significance. For a past era it serves as a valuable clue to the aims and attitudes of the ruling class. For a contemporary era it is a rough measure of the vigor of the society it reflects—for once an ideology has lost its old appeal or power to stir a politically significant fraction of the population, it has, to that extent, lost its cohesive efficacy. Disagreement or even silence where once were cheers is a reliable sign of impending change.

The ideologies of capitalism have flowered in many ways and in various media, which is also true of earlier ideologies. Four characteristic ideas will suffice, perhaps, to distinguish the creed of our epoch from those which preceded it:

1. Of paramount importance is the philosophy of *individualism*. Politics, psychology, sociology, morality, theology and economics all regarded the human individual as the fundamental unit of thinking. Certain philosophers, notably Hegel, rejected this conception, but this apparent exception strengthens rather than weakens the generalization, since Hegel exercised an architectural influence upon one of the principal "managerial" ideologies of our own day. For the capitalist thinker all human institutions were not "realities in themselves, but only numerical sums of the individuals who compose them . . ." (p. 26).

"2. In keeping with the general ideology of individualism was the stress placed by capitalist society on the notion of 'private initiative.' Private initiative, supposed, in the chief instance, to provide the mainspring of the economic process, was discovered also at the root of psychological motivation and moral activity.

"3. The status of the capitalist individual was further defined with the help of doctrines of 'natural rights' ('free contract,' the standard civil rights, 'life, liberty and the pursuit of happiness,' etc.) which are held to belong in some necessary and eternal sense to each individual. There is no com-

plete agreement on just what these rights are, but lists of them are given in such documents as the Declaration of Independence, the preamble and Bill of Rights of the Constitution of the United States, and the French Declaration of the Rights of Man.

"4. Finally, in capitalist society, [feudalism's] theological and supernatural interpretation of the meaning of world history was replaced by the idea of progress, first appearing in the writers of the Renaissance and being given definite formulation during the eighteenth century. There were two factors in the idea of progress: first, that mankind was advancing steadily and inevitably to better and better things; and, second, the definition of the goal towards which the advance is taking place in naturalistic terms, in terms we might say of an earthly instead of a heavenly paradise" (pp. 26-27).

That the foregoing determinative features of capitalist society—economic, political and ideological—will pass away has long been predicted by social theorists. An impressive body of factual support for their conclusion has accumulated from the events of the past thirty years and chiefly from those of the past fifteen years. Both the ascending cogency of the events themselves and their increasing concentration towards the end of this period, where it melts into the present, establish a trend which, if it is permitted to continue or cannot be stopped, will ultimately put an end to capitalism. This is not to say that modern capitalism has utterly disappeared, or that no effort will be made to re-establish its dominant position in at least portions of the territory it formerly ruled. The very form of the statement just made, however, which represents the most optimistic view now held by well-informed apologists for capitalism themselves, is an implied concession that historical capitalism has been at least temporarily dethroned. The evidence at hand indicates that any restoration which might occur would itself be temporary. It may be grouped under nine principal headings:

1. Most obvious to the largest number of people is the persistence of *mass unemployment* in all capitalist nations

including (before the war) "large percentages of the youth just entering working age. . . . Mass unemployment is nothing new in human society. It was found among the poorer citizens during the last years of Athens, among the urban 'proletariat' . . . in the Roman Empire and, very notably at the end of the Middle Ages, among the dispossessed serfs and villeins who had been thrown off the land to make way for capitalist use of the land" (pp. 31-32). The significance of these historical precedents for present purposes lies in the fact that in every instance mass unemployment heralded the end of an epoch. No one will deny that in the latter days of capitalism similar unemployment has been a continuing social hemorrhage and a portal of infection, resisting all manner of drastic and frantic efforts to close the wound.

2. Capitalism has always been cursed by a recurring "business cycle." Boom and depression have followed one another inexorably, but until 1930 "the curve of total production always went higher in each major boom period than in the boom preceding. It did so not only in terms of the absolute quantity of goods produced but in the relative quantity of the volume of goods compared to the increased population and plant capacity. Thus, in spite of crises, there was a general over-all increase in capitalist production which was simply the measure of the ability of the capitalist social organization to handle its own resources. [Since 1930] this over-all curve has reversed" (p. 32); the production of the best years of the 1930's, relative to population and potential capacity, was lower than that of the 1924-1929 average. "This new direction of the curve is, in its turn, simply the expression of the fact that capitalism can no longer handle its own resources" (pp. 32-33).

3. The volume of public debt is now approaching the point at which its management by orthodox methods becomes impossible. "Public debt, like the unemployed, sucks away the diminishing blood stream of capitalism. . . . And it cannot be shaken off without utterly dislocating all capitalist institutions.

"4. The maintenance of the capitalist market depended on at least comparatively free monetary exchange transactions. The area of these, especially on a world scale, [had diminished] toward a vanishing point [even before the war]. This is well indicated by the useless gold hoard at Fort Knox and the barter methods of Russia, Germany and Italy" (p. 33).

5. Except for the artificial demands of war and of the period immediately following, "all capitalist nations have been afflicted by a permanent agricultural depression. Agriculture is obviously an indispensable part of the total economy" (p. 33), yet all kinds of experimentation, including the grant of outright subsidies, have utterly failed to stabilize it on a peacetime basis.

"6. Capitalism is no longer able to find productive uses for available investment funds" (p. 33) which, until the successive "defense" bond and then war bond campaigns, were not merely unproductive but absolutely idle. Such "mass unemployment of private money is scarcely less indicative of the death of capitalism than the mass unemployment of human beings. . . . During the [prewar] decade in the United States, as in other capitalist nations, new capital investment has come almost entirely from state, not private, funds" (p. 33). Since the beginning of the war this statement has been underscored a thousandfold and—to complicate matters further—the vast majority of new government investments (war plants, etc.) is not only without positive significance, but is pregnant with negative significance, for the peacetime economy.

7. The creeping paralysis of initiative in the domestic sphere has been accompanied by a similar paralysis in the foreign sphere, not merely as between capitalist powers of comparable stature, but as between capitalist powers and the backward states or peoples of the earth. The old flair, based on necessity, for exploitation of a hinterland or colonial empire has been wholly lost, although the need continues. "This is nowhere better illustrated than in the relations between the United States and South America" (p. 34). Smoldering

resentment and civil unrest, such as frustrated the efforts of Great Britain to deal constructively with India, have not been a factor in the development of our own "good neighbor" policy, yet despite the most imperative necessity of implementing that policy in the economic field, capitalism has proved to be completely inadequate to the task. Such economic implementation as has occurred has been accomplished by state action, wholly outside the framework of capitalism.

"8. Capitalism is no longer able to use its own technological possibilities" (p. 34), as shown by its most recent prewar experience, for fear of aggravating "technological unemployment." "In many entire economic sectors—such as agriculture, building, coal mining—the technical methods available make the actual methods seem stone age" (p. 34). Yet the utilization in a peacetime economy of hundreds of tested and proven inventions remains impossible so long as the corporate proprietors of the basic patents suppress them for fear of smashing entire industries—a fear which is thoroughly well founded.

"9. As symptomatic and decisive as these economic and technical developments is the fact that the ideologies of capitalism . . . have become impotent. . . . On the one hand the scientific pretensions of these ideologies of the *bourgeoisie* have been exploded" (p. 35). Of far greater importance, however, is the fact that they have lost their dynamic force. The rationalizations of a society may be nonscientific or completely antiscientific and still do their work as long as they can set men in motion. This the capitalist creed formerly did, but now can no longer do. The famous—or infamous—resolution of the Oxford Union in 1933 never again to take up arms for king and country, and the equally shocking threat of young American soldiers, drafted in 1940, to go "over the hill in October" clearly indicated the current of thought then prominent enough to be noticeable among capitalist youth. Happily these attitudes did not survive the actual launching of military attacks against the two coun-

tries. But similar attitudes among the French did survive the invasion of France in 1940, and unquestionably played a determinative part in the downfall of that once powerful capitalist state. The superiority of German arms and generalship may be admitted, yet the sheer bulk of the opposing French war machine would certainly have delayed German victory for a few months at least if there had been any considerable tenacity and determination among the French troops. The point is that a society which cannot be aroused at all, or only by actual aggression, is a society which has lost its power of initiative and all or a large part of its momentum (pp. 35-36).

III

Failure of Socialism to Succeed Capitalism[1]

AFTER capitalism, what next? It is convenient to approach this question in the light of a prediction long since made, that capitalism will be succeeded by socialism. Professor Burnham disagrees with this prediction, upon grounds which make an affirmative contribution to his own theory of the "managerial" revolution. Before considering either the socialist or the "managerial" interpretation of the changes now taking place in society, it will be helpful to explain the "struggle for power" glossary containing the terms freely used in both interpretations.

The common starting point of the two theories is the elementary proposition that every organized society depends for its daily existence upon its instruments of production. These range all the way from land alone in a primitive economy to a complex of means, including factories, mines, railroads, banks, etc., in a highly developed one. In every historical society thus far some organized group or collection of individuals has wielded more power, economic and political, and possessed greater wealth than any other group or individuals, and for this reason may appropriately be styled the "ruling class."

In each case the ruling class will be found to be identical

[1] The material of this chapter is based upon *The Managerial Revolution.* All numbers in parentheses refer to the pages of that book.

with the group having special rights of "access to the instruments of production" and receiving "preferential treatment in the distribution of the products," or their exchange equivalent determined by prearranged contract or sale in the open market (pp. 59 *et seq.*). The special rights of access add up to control of access. From control a preferential treatment in distribution follows as a matter of course. The two together are the principal attributes of what we call "ownership." They are normally conjoined, not because it is theoretically impossible to split them, but because those having control of access are, *ipso facto,* the dominant class, and bear the responsibility of safeguarding the fundamental institutions of their society. This is a matter of concern to all members of the society, not to the ruling class alone; hence safeguarding the basic institutions is the paramount social need. It is impossible to confer primary benefit upon the fundamental institutions without conferring it at the same time and to the same degree (albeit indirectly and incidentally) upon those who control the fundamental institutions. It follows therefore that the latter class is also the wealthiest class and likewise the ruling class, because the power of the state is deployed around the economy and serves its needs.

The socialists would further agree with Professor Burnham that the current "revolution," like the great social revolutions of the past, is taking the form of a "struggle for power." This does not imply that the movement, at least in its early stages, is purposeful, or consciously directed to the end of encompassing the socialist, or any other, revolution. The language is purely metaphorical. It simply means that a social order dominated by the *bourgeoisie,* by the capitalists, as a ruling class, will ultimately give way to an entirely different social order. In the final stages of the transition there will be logical action by the proletariat against the capitalists. But the origin of the transition was not a conspiracy. In the socialist view it was the inherent decadence of the capitalist system, which, when far enough advanced, impairs the power

of the ruling class sufficiently to make its overthrow comparatively easy.

At this point the question arises whether the capitalist ruling class will be succeeded by a socialist ruling class. In answering this question the socialists and Professor Burnham part company.

To consider the socialist answers, fortunately, it is not necessary to consider all the permutations and combinations of socialist theory from the days of Marx to the present time. Although many of them differ both from Marx and from each other as to the means most likely or best calculated to consummate a socialist organization of society, they are in basic agreement as to the determining characteristics of such an organization. What is meant by "socialist society" (when matured) is that it is *classless*, fully *democratic* and *international.*

It is "classless" in the sense that "in socialist society no person or group of persons has, directly or indirectly, any property rights in the instruments of production different from those possessed by every other person and group. It amounts to the same thing to say that in socialist society there are *no property rights in the instruments of production.* A *property* right has meaning only if it differentiates the status of those who have it from that of those who do not. The democracy *of socialist society is to extend, and completely, to all spheres* —political, economic and social. And socialist society is to be organized on an international scale" (p. 39); in the full sense that state boundaries are to become meaningless, and so disappear. If it is not immediately international (as the result of a virtually simultaneous world revolution), at least internationalism is to be the tendency.

"There is another point of agreement, at least since Marx himself, among all the serious organized groups which have held the theory we are now analyzing. This is the belief that the working class, the proletariat, has a special and decisive role to play in the transformation of society along socialist lines. The main strength of the social movement that will

establish socialism is to be drawn from the working class. . . .

"Put very simply, the Marxist movement understands the process as follows: the working class will take over state power (by insurrectionary means according to the Leninist wing of Marxism; by parliamentary means according to the reformist wing); the state will then abolish private property, either all at once or over a short period of time; and, after a certain period of adjustment (called by the Leninist wing the 'dictatorship of the proletariat'), socialism will be ushered in. Under socialism itself, in keeping with its fully democratic, classless structure, state power in the sense of the coercive institutions of government (police, army, prisons) will disappear altogether" (pp. 39-40).

Socialist theory appears to be open to challenge at a number of points, on grounds both theoretical and historical, quite apart from events since the Bolshevik Revolution of 1917. For example, the idea that socialism is the only alternative to capitalism is contradicted by the former presence in the world, simultaneously and successively, of a large number of societies neither capitalist nor socialist. Again, the idea that the seizure of power by the proletariat and the abolition of private property rights in the instruments of production will produce a classless society is contradicted by the examples of a number of ancient societies (e.g. in Babylonia and in Egypt), in which priestly castes grew fat at the expense of the masses whom they exploited without, however, having any property rights in the means of production. But illustrations drawn from ancient history are not required to disprove the socialist thesis. Contemporary history is replete with proof that socialism has not replaced and is not replacing capitalism anywhere. This same proof contains, because of its nature, persuasive evidence that socialism will not replace either capitalism or the successor or successors of capitalism within a foreseeable span of time, if at all. The relevant facts may conveniently be grouped as follows:

1. Events in Russia since October, 1917, though ambiguous at first, have moved steadily and inexorably away from,

not towards, socialism. Power was seized initially by industrial workers and disaffected peasants. For a brief period committees of workers were left in charge of the factories. Private property rights in the instruments of production were abolished. Some individual freedom of expression—not much, but some—was tolerated at first. Various factions of the Bolshevik party were allowed to exist. The government did adopt at the outset an internationalist point of view, exporting agitators to foreign countries to foment the expected world revolution—a procedure to which some of the foreign countries reacted by armed intervention in Russia. But none of these policies except, perhaps, the last, and it only in a much modified and heavily veiled form, were long continued. Workers' committees were soon "advised" and thereafter supplanted by government managers, although not without bloodshed in the early instances. Trade unions have persisted as paper organizations, but have had no power to bargain or to strike. Freedom of expression, whether individual or political, has utterly disappeared, along with all political parties other than the one official party. The income differentials among individuals in the Soviet Union, in terms of real income (tangibles or the use of tangibles plus the purchasing power of salaries or wages) are at least as great as those in the United States. The coercive apparatus of the state is everywhere in evidence and ceaselessly active. Internationalism has yielded place to nationalism in every sector of state policy (pp. 44-49, 206-226).

2. Outside of Russia the expected "socialist" revolution—the revolution which the agitators were dispatched to bring about—either did not take place at all or was abortive. Germany, several Balkan nations and China all had Marxist-inspired disturbances but none of them succeeded. The United States had a "Red scare" and deported some individuals and jailed others. Great Britain did some deporting and jailing, but had no scare. Yet the highly industrialized capitalist states were the very regions in which the socialist revolution was supposed to take place first and succeed the most

readily. Experience showed that the success of these uprisings or would-be uprisings was almost in inverse proportion to the degree of industrialization of the communities concerned (pp. 49, 206-226).

3. The Russian experiment proved conclusively that the abolition of private property rights in the instruments of production would not, in and of itself, bring about the free and classless organization of society that Marx had dreamed of. In Russia the abolition of these rights took place *after* the workers had dispossessed the previous rulers of the state and proprietors of the factories; yet despite the advantage of this head start, abolition wholly failed to *keep* power where it already reposed. Today the workers have no vestige of power. The sum total of it is vested elsewhere. This circumstance is fatal to Marx's dialectic, if not necessarily to his prediction, viewed as a possibility of the distant future. For the belief that the problem of introducing socialism was identical with the problem of overthrowing *bourgeois* property rights was central to the reasoning of the whole socialist hierarchy. We now know that there is no necessary connection between the two phenomena (p. 50).

4. We may assume with Marx, in the absence of any proof to the contrary, that *if* socialism is to come, it will be through the agency of the proletariat. But from this angle also, it now appears that socialism is a far more remote possibility than it appeared to be in Marx's own day, due to the relative deterioration, in a *production* sense, of the position of the workers. The reason for this deterioration is directly traceable to advances in technology which Marx and his contemporaries did not and could not foresee. As recently as the middle of the last century the spread between skilled and unskilled labor was not very great. The productive processes, though novel, were not so complicated as to be beyond the reach of on-the-job training for workers possessed of normal intelligence and aptitude for learning. Today, however, an immense variety of highly technical skills, of engineering, of production planning and the like, requiring elaborate edu-

cation not possessed by or available to any workers *as such,* is indispensable to the continuing operation of the instruments of production.

This does not refer to workers who operate the production line and are rated as semi-skilled. Naturally, workers of that type can be and are trained very quickly, and the degree of skill required is never so great as that of the old-fashioned artisan handling his own tools. Even the widow of a Confederate general can be trained to take her place on a citizen production line in wartime. But neither the widow nor any of her fellow workers can set up the line in the first place, or coordinate its operation with that of one or more other lines, or regulate the flow of materials—raw, semifinished and finished—through the plant as a whole, or design or install the machine tools, the power plant, the electrical system, or perform any of the other key functions essential to the modern business of turning out even simple goods. The workers today cannot seize power, or keep it after they have seized it, simply because they do not know how. In their hands—if it came into their hands—the heart of our civilization would flutter and die (pp. 50-53).

5, 6. Professor Burnham argues that, largely because of the abandonment of socialism in its putative citadel, the Soviet Union, Marxist parties outside of Russia have likewise abandoned the cause. The position of non-Russian communist parties conforms wholly to the position of the Russian Communist Party, and thus creates no difficulty for the argument. But more than this is meant. Trotzkyist groups and the socialist parties stemming from the Second International, chiefly socialist or social democratic parties on the Continent and the Labour Party in England, are also included in the category of "Marxist parties." Trotzkyism has deteriorated and almost disappeared as a social force. But since the date of Burnham's book, 1941, the British Labour Party has recovered strongly. The continental parties are likewise showing signs of renascence.

This seeming contradiction is more apparent than real.

If the explanation advanced for the failure of socialism in Russia is sound, the impossibility of control of the instruments of production by a classless, proletarian society is inherent in the nature of modern technology. It will be revealed just as inevitably when control is asserted by reformist, parliamentary means as it was revealed when control was asserted by violent, insurrectionary means in Russia.

"7. The falsity of the belief that socialism is about to arrive has been shown thus far by [negative means]. To these must be added . . . the positive indications already compelling, that not capitalism and not socialism but a quite different type of society is to be the outcome of the present period of social transition" (pp. 56-57).

IV

The Managerial Revolution[1]

OUTSTANDINGLY and decisively, the exigencies of modern production deflected the Bolshevik Revolution from its appointed course. Instead of freedom, Russian workers experienced increasing regimentation. Internationalism, if not abandoned as an ultimate goal, went underground as the Soviet state grew progressively more nationalistic. The dream of a classless society yielded to the harsh reality of a new stratification into classes, dominated by a small but all-powerful elite whose nucleus consisted of those technical specialists who restored and expanded Russian industry. Conformably to the function of this new elite, which directly manages a collectivized economy interfused with a totalitarian political apparatus, Professor Burnham postulated his theory of the "managerial" revolution.

This theory is wholly scientific in approach and method. That is to say, it has no preconceived aim other than to describe what has been taking place in the world since 1917. It is devoid of wishfulness, it suggests no program and imputes no morality (or lack of morality) to what it discovers. What it discovers is nothing less than a functional identity among social changes wherever the decline of capitalism has led to innovations. Therefore an understanding of the theory is in-

[1] Most of the material of this chapter is based on *The Managerial Revolution*. All numbers in parentheses refer to the pages of that book.

dispensable to any attempt to deal constructively with current trends.

Professor Burnham adopts the same "struggle for power" approach, in formulating his thesis, as do the socialists; but having adopted it, he pursues it more rigorously. Like the socialists in behalf of their proletariat, Burnham disclaims for his "managers" any initial purpose to overthrow the capitalists. Unlike the socialists, however, who do attribute to the proletariat purposeful and disciplined action towards the end of the transition to "socialism," Burnham is content to let the managers remain unself-conscious, if not uncritical, to the very end of the "managerial revolution." This is not to say that the managers will simply "sit back and let history take its . . . course" (p. 63). Their efforts to be socially constructive will not be directed, however, to the end of self-aggrandizement. They will in fact emerge as the new ruling class and, having emerged, will proceed to plan to the full extent of their managerial capabilities. But they will not have planned their way to power in the first place. Even the ideologists who celebrate the transition as it progresses will not realize that they are helping a new group to power.

To a very considerable extent, neither will other social groups realize in advance the necessary consequences of their diverse aims and seemingly unrelated acts. They will fancy that they are pursuing their own ends. They will not have foreseen, far less desired, that the results they help to bring about benefit themselves not at all, or only to a lesser degree than they benefit the managerial class. The revolution, like all the major revolutions of the past, has been and will continue to be accompanied by wars and civil disturbances. Yet the combatants in such wars will not be the managers, who would not be allowed to fight even if they wanted to, in view of their superior usefulness at the controls of war production.

Because the theory of the managerial revolution applies generally, wherever modern capitalism has broken down, it is formulated in general terms, in a context of typical capital-

ist relations uncomplicated by violence and destruction (pp. 77-95).

During the earlier phases of capitalism, there was no separation of the right to control access to the instruments of production from its *de facto* exercise for purposes of production by those possessing the right. Problems of the distribution of the production (gross earnings) were presented from time to time (as notably, in the form of workers' demands for increased wages). But no threat to the social equilibrium was involved, for distribution of earnings is not the same thing as the control of production. It was always possible to halt demands for increased wages short of the point at which the realization of a profit (preferential treatment in distribution) would be placed in jeopardy, by pointing out that without a profit the enterprise and with it the employment it provided could not continue. In other words, control of access was not even indirectly disturbed.

In recent decades, however, two profound changes have come about, through advances in technology and the accompanying development of large corporations out of little producing companies and the formation of giant corporate-aggregates through mergers, holding companies, interlocking directorates and the like. Technology has created the need for numerous highly trained specialists capable of managing and coordinating its myriad intricacies. The *bourgeois* owners of productive enterprises, though retaining a sort of veto power over the planning of the managers, have withdrawn more and more from problems of production into problems of corporate finance. The result is that where there was formerly but one social group (the *bourgeois* or capitalist class) directly concerned with the control of production of a typical enterprise, there are now four. Let us consider, for purposes of illustration, a hypothetical automobile company:

"1. Certain individuals—the operating executives, production managers, plant superintendents, and their associates—have charge of the actual technical process of producing. It is their job to organize the materials, tools, machines, plant

facilities, equipment, and labor in such a way as to turn out the automobiles." These are the individuals who are defined, under the theory, in terms of their function as producers, as "managers" (p. 82).

2. A second group of individuals, better known, better paid and one step higher in the corporate hierarchy (centering as they do around the office of the president) guides the company toward a *profit*. These people try to determine in advance the particular combination of quality, numbers and price of the finished product which will yield the highest gain for the company. They bargain over the costs of raw materials and labor, arrange the necessary financing and also have charge of advertising and distribution. These are the persons ordinarily referred to in legal and business parlance as "the management" of a corporation. It will be seen, however, that only the procurement of raw materials and labor and the distribution of the product have a necessary physical connection with the technical processes of production. The financial functions and all of the profit motivation are irrelevant to the *physical* requirements of the production job—the cars would be neither better nor worse for a higher or lower selling price, system of wage scales, or rate of interest on bank loans. Yet preoccupation with profits is characteristic of this group, and so the theory designates its members as "finance executives," or simply "executives" (pp. 83-84).

3. Above the executives in the largest industrial sectors (including most of the automobile industry) are the latter-day capitalists. Typically these are neither production men nor one-enterprise financiers, but investment bankers whose primary concern is the administration of a financial-industrial empire. Through holding companies and the other legal devices mentioned above, these individuals, who may be described (again in terms of function) as "finance capitalists," rule a corporate-aggregate of individual companies often very diverse in character. That is, the individual companies need not be, and often are not, engaged in the same line of business. They may include a number of manufacturing con-

cerns, iron mines, steel mills, railroads, banks, insurance companies—almost anything. The requirements of the administration of these variegated undertakings *in the aggregate* may differ very sharply from the requirements for the control of any one of them considered by itself, even though the ultimate aim of realizing a profit remains the same. It may, for example, be thought desirable to merge a number of companies in order to float a stock or bond issue, quite irrespective of the effect of such a merger upon the original companies, their production or their profits. Or the profits of one company may be lowered so as to increase the profits of other companies, also owned by the same interests, supplying the first company with raw materials—for tax reasons, for example. The finance capitalists may want to put little competitors out of business, or maintain artificially high prices under a cartel agreement, or influence politics. None of the functions of finance capitalists, and none of their motivation, is related in any way to the technical requirements of the production of goods or services (p. 84).

4. Finally there are the stockholders, who in legal contemplation have the beneficial ownership ("equity") of the companies whose stock they hold. Also in legal contemplation, the stockholders have the right to elect the directors who, in turn, appoint the officers. Actually, however, most of the stockholders in most of the largest corporations of the United States, whose stocks are listed on the major exchanges, sustain a purely passive relation to the companies whose stock they hold—the right to receive dividends if, as and when declared. The reason is that these stockholders, large in numbers but small in individual holdings, are scattered throughout the country, unable to attend stockholders' meetings in person and dependent for their information about the company and its affairs upon the publicity distributed by the "management." Consequently they ordinarily sign proxies enabling the "management" to vote their stock for them, and thereby surrender actual control to a very small group which collectively owns only a small percentage of the total stock. The

"management" thus becomes self-perpetuating and does the bidding of the true policy-makers, that is, of the finance capitalists (pp. 84-85).

The interests of these four groups tend to conflict. The stockholders desire the largest dividends possible, and are exposed to frustration by the needs or desires of each of the other three groups. Maximum production and the manipulation of the company as a member of a larger empire may be at odds with the urge for dividends. Earning a maximum profit for the corporation is not synonymous with the declaration of a dividend of corresponding size. Between the executive group and the finance-capitalist group the conflict is very clear. And the production group—the true managers in the production sense—will have less than maximum scope for their technical skills if they are called upon to execute a program of less than maximum production.

Identification of the four interest groups in terms of function has significance for the past and for the future. Theoretically, one and the same individual or group of individuals could unite all four functions; could plan and supervise production and distribution, coordinate the enterprise with others and own a majority stock interest. This was actually the fact in a sufficient number of enterprises to determine the economy until the early part of the present century. The fact survives today, however, only in so-called "little business," which is so little determinative of the modern economy that in order to preserve it from extinction special governmental efforts had to be made to secure for it a reasonable proportion of war contracts. For the present and, so far as appears, for the remaining years allotted to finance capitalism, the separation of the individuals performing the four functions as well as of the functions themselves is and will increasingly become the paramount fact of the economy. Its significance lies not only in the latent conflict of interest among these groups; not only in the transformation of the latent conflict into a patent one as prosperity gives way to chronic depression. It lies also, and for the future decisively,

in the fact that it brings about an economic disequilibrium of a sort never tolerated for an historical "long pull"—never existent except in a brief transition from one form of social organization to another. This disequilibrium, of crucial historical importance, consists of a splitting of control of access to the instruments of production from preferential treatment in the distribution of the products.

Control of access, the most important attribute of ownership, can be delegated. In the phase of capitalism under which we have been living—finance capitalism—*de facto* control has, through delegation, become vested in the managers. Yet preferential treatment in distribution, the other salient feature of ownership, has been retained by the *bourgeois* owners, among whom the managers are *not* included to a significant degree. Preferential treatment in salaries and bonuses goes to the executive group. Preferential treatment in the form of dividends goes to the individual stockholders, among whom the managers do not loom large, either in numbers or in holdings. There is an additional type of financial return which consists of the emoluments of stock-flotations, mergers, price-rigging and other forms of financial juggling. These go altogether to the finance capitalists, not as stockholders, but as manipulators.

If it be objected that these emoluments are the fruits of "control of access," retained by the capitalists (not transferred to the managers), the objection may be admitted and, indeed, put forward as the prime reason why we still have a characteristically capitalist economy. But it must be pointed out again that the exercise of "control" for such a purpose has only an indirect and incidental connection with production, and is just as apt to affect production adversely as beneficially. The stock in trade of finance—share certificates, bonds, debentures, equipment trust certificates, etc.—*represents* the productive plant of the nation. Dealings with the former are, in effect, dealings with the latter, as if our factories, mines, railroads, etc, were just so many commodities. At worst this leads to disastrous speculation. At best, since

it pertains only to financial manipulation and not to production, it is irrelevant to the main business of society, which is production and not financial manipulation. The crisis of the 1930's was a crisis of capitalism *only to the capitalists.* To everybody else, including managers, government and public alike, it was a crisis of production and distribution of real commodities—goods and services—expressed in chronic unemployment and a most uneven standard of living.

The emergence of the managers, therefore, is not so much the result of their disillusionment with capitalism (most managers still think they are sympathetic to capitalism, and would indignantly deny a suggestion to the contrary) as the somewhat blind resolution of contending social forces. It is the particular form of obedience rendered in our day to the categorial imperative of any organized society, namely, that its minimum needs be attended, its fundamental business transacted. The management of modern production is the specialty of the managers. If the general framework of capitalism will no longer permit them to produce as abundantly as society requires, then society will evolve a new framework in which the managers can produce and also take over the function of distribution. For the development of that framework society will look to the managers themselves. They alone can determine what is needed to enable them to do the job required of them. Naturally, the powers of the state will be regrouped to support the new economic dispensation. Any other supposition would be inconsistent with the purpose to be served, and prevent the attainment of the result desired.

By way of testing his theory, Professor Burnham uses it as a measure of the changes already accomplished in the once capitalist world. Differences as well as similarities are thus disclosed. But the similarities are all found among the day-by-day operating practices of the societies involved, which thus yield nearly identical consequences and tendencies. The differences are merely verbal. This striking confirmation of

the theory first appears from a comparison of the supposedly antithetical revolutions of Russia and Germany (pp. 206-251).

The German revolution of 1933 was not master-minded by avowed Marxists, as was the revolution in Russia. It was frankly nationalistic, but it did adopt a home-grown concept of socialism (called "national socialism") as bait for the unemployed. That this ideological label was not assumed in good faith is clear both from the alliance between the nazis and the reactionary, militaristic Junkers, which brought Hitler to power in the first place, and from the purge of the radical element of the party, under Ernst Roehm, on June 30, 1934. The true platform was nothing but naked power—German power—and its international appeal was, therefore, *nil*. The famous Fifth Column was not designed to bore from within as the agents of the Comintern did. Hitler's Fifth Column had as its mission the preparation of enemy territory for easy penetration and conquest by the regular armed forces of the *Wehrmacht*. The nazi agents spread confusion and aroused class hatreds by circulating various lies, with a psychological finesse worthy of a loftier purpose. They did not purport to serve as ambassadors of good will. Indeed, for the most part, they were careful to keep their German origins, or at least their current affiliations, secret. Comintern agents, on the other hand, were not an advance guard for the Red Army. They hoped to achieve their aims by bringing about successful local revolutions and, since they worked mainly through local "communist" parties, they made no bones about their own devotion to Marxist doctrine or their relations with the Comintern.

The Russian and German revolutions thus started from opposite poles. The one was internationalist in the true sense and idealistic (if misguided) in purpose. The other was completely cynical and insolent in its exaltation of the German people over all other peoples of the earth. The Russians began by liquidating the capitalists. They only gradually enslaved the workers (and the peasants after the workers), as

required by the managerial planning for the exploitation of natural resources, for industrialization and for the building of a huge armed force. The Germans began by enslaving the workers. Only gradually they eliminated the capitalists, as required by the managerial planning for the expansion of industry, for the acquisition of needed or substitute raw materials and foods and for the building up of a huge armed force. Yet what is the difference in result? In both countries for several years the tightest and most complete tyrannies known to modern times held the populations in a grip of iron. In both countries the economic policies were planned and executed or supervised in detail by a small army of managers, with military requirements and the supporting industries the top priority.

The contrary preachments of the politico-ideologists were important only to the extent that they fulfilled their function of cementing the loyalty of the respective peoples. But we saw in both countries an identical mobilization of all resources, human and material, for total war. And the guiding hand of both mobilizations belonged to the economic managers. A modern army cannot fight without modern weapons. Modern weapons can be supplied in the required volume only by modern industry. Modern industry can function only under the expert control of highly trained planners and supervisors. Politically, the managerial class (except at the upper levels of planning) can afford to be neutral. Individual managers might run afoul of the party line—Communist or Nazi—and be replaced, but they were always replaced by other managers and not by capitalists or proletarians. Thus the managers, as a class, are supreme, for they alone determine what is possible and transmute possibility into actuality. If nothing happens to arrest and reverse the managerial trend, the issue in the European war after June 22, 1941, was whether German managers or Russian managers would rule the great hinterland surrounding the industrial concentrations of Europe and Russian Asia. That issue has now been decided in favor of Russian managers.

Developments in Russia and Germany clearly illustrate the dual function of the managers—planning and execution of a program—and their consequent stratification into a hierarchy concerned primarily with planning at the upper levels and with execution at the lower levels. The personnel who organize and operate individual mines, mills, plants, public utilities, etc. differ not at all from their opposite numbers in a capitalist economy. These are the production specialists brought into being by twentieth century technology, not by any particular system of property relations or by any sociological "ism." But coordinators of plants within a single industry, or of two or more industries, or of whole sectors of the economy with the political apparatus of the state, have no counterpart under capitalism, except to a limited degree in the finance capitalists who administer financial-industrial empires in their own interest.

We should not be deluded, however, that because official coordinators in the upper reaches of the economy are lacking in capitalist society, no coordination of financial-industrial empires takes place. In recent decades corporate combines within and among capitalist states have themselves combined through the medium of cartels and "gentlemen's agreements." Such devices and understandings are contrary to the spirit, if not always the letter, of the antitrust laws of the United States. But attempts have been made to justify them on the grounds of practical necessity. The argument is that the only alternative to voluntary agreements fixing prices and allocating world markets and cross-licensing patents is ruthless and ultimately ruinous competition. The merits of this contention need not concern us at this point. Whether sound or not, both the practice and its rationalization are noteworthy, first, because they conflict with the classic theory of capitalism, which placed all its emphasis upon free competition in the open market; and, second, because they reveal a trend *within the framework of capitalism* towards ever wider planning. What wonder is it that, when capitalist planning breaks down, authoritarian planning takes its place? And in

view of our observation that finance capitalists are much more financiers than they are capitalists in the old entrepreneurial sense, why be surprised that managerial planning reverts to utilitarianism as a philosophical basis?]

The significance of these considerations for present purposes is as follows:

1. Since managerialism is inherent in the technologies of the modern industrial process, managers (in the production field) are certain to come more and more to the fore as capitalism progressively decays, even though an accompanying *political* revolution may have as its self-conscious purpose something quite foreign to the issue of economic management (e.g. nationalism in Germany) or hostile to the managers as a new dominant class (e.g. Marxist socialism in Russia).

2. Since managerialism has successfully overruled revolutionary leaders of different or contrary tendency, its path to power is even smoother in states where capitalism is on the wane but no political revolution has taken place. The briefest of glances at the United States in the prewar years (the place and time of least prominent development along managerial lines) will illustrate this point (pp. 147-171, 252-272).

No shots were fired in the United States as the New Deal administration moved into the breaches in the economy caused by the depression. Despite accusations to the contrary by certain prominent capitalists after a brief "honeymoon" period, we may assume that the real aims of the New Dealers corresponded with their professed aims, namely, to set private enterprise back on its feet. The policies actually pursued were so various and incoherent that no certain contradiction of words by the aggregate of deeds clearly appears. Nevertheless it is pertinent to inquire whether the New Deal program in fact accomplished the desired result, or seemed likely to do so if the war had not supervened.

Excluding the NRA experiment, which was declared unconstitutional, the measures adopted may be grouped into

three main categories, and produced effects generally as follows:

1. Monetary and fiscal measures, starting with the bank holiday and abandonment of the gold standard, and proceeding through the devaluation of the dollar, a succession of deficit budgets and the reciprocal trade program. The cumulative effect was to scare private capitalists, to impair their confidence and to force them into liquid positions to which they clung persistently thereafter. This reaction, in turn, induced the great expansion of the RFC under Jèsse Jones, the establishment of the Export-Import Bank and, after the start of the war but before our direct involvement, the inauguration of the Lend-Lease program.

2. Proprietary undertakings and the employment of manpower by the government, both direct and indirect. Here we find vast developmental programs, such as the TVA and the irrigation dams of the West, local government projects financed in part by the federal government through PWA, and, in addition to the employment thus accounted for, direct employment through the CCC and WPA. In minor respects these measures ousted free enterprise from an entire, though limited, sector it formerly occupied; e.g., the generation of electric power in the Tennessee Valley. The major consequence was a marked, though temporary, increase in demand both for certain capital goods and for consumer goods generally, as government "pump priming" (the favorite rationalization of deficit spending) made itself felt. Every time the "priming" was suspended, however, the "pump" began to go dry again, most notably at the time of the "Roosevelt Recession" in 1938.

3. A large number of diverse regulatory statutes, with the boards or commissions required to frame and administer regulations under them. These are too familiar to require more than a listing: SEC, AAA, NLRB, FCC, CAB, Social Security, and so on. In a purely economic sense, the effect of these innovations upon the capitalist economy was to increase

its tax bill, labor bill, raw materials bill, expenses of administration or "overhead" and other costs of doing business.

It is irrelevant to inquire at this point which of the foregoing policies were necessary and which unnecessary, good or bad, socially desirable or undesirable. The sole fact we are now concerned to note is that the New Deal program as a whole either reduced the actual chance of the capitalists to gain a profit commensurate with the risks involved, or else increased the uncertainties entering into the risk so substantially as to weaken confidence. Here, then, is a dilemma: the very means resorted to by a capitalist state to alleviate the *consequences* of a modern depression diminish, to an equal extent, capitalism's hope of *recovering* from the same depression. There was no recovery in fact. It was not until we had been at war for two years, in 1944, that the WPA was formally disbanded.

To record this trend is not to blame the New Deal or to praise finance capitalism. It is noteworthy that the intrusions into the economy of New Deal policy corresponded exactly with the most aggravated symptoms of capitalist collapse. Had there been no collapse from 1929 to 1932, there would have been no New Deal in 1933. And the prime causes of the collapse certainly extended far back into the era of "rugged individualism."

The lesson to be learned from this bitter experience, therefore, is primarily a challenge to capitalism. On the record of 1933-1940, aside from the war, there is no evidence that the depression would have come to an end within the general framework of capitalist institutions and relations. From this the inference is plain that, should reconversion be followed by a new boom and collapse, the new incursions into the economy the government would then be compelled to make, added to those already accomplished, would suffice to shift the center of gravity from capitalism to managerialism. A sharp, clean break with the past is not an essential part of the theory under discussion. Its prediction will be fully vindicated if, in the course of time (not very much time), an

economy now capitalist but with important and increasing "managerial intrusions" becomes a managerial economy with important but diminishing "capitalist remnants" (p. 236).]

With respect to its analysis of developments in the United States, it may be objected that the theory of the managerial revolution breaks down, inasmuch as the political sphere has not been much affected. That is to say, there has been no abridgment of civil liberties, no suspension of free elections, no commingling of the economic and political apparatus, such as has occurred in the "police states" of Europe and Asia. The answer to the first part of this objection is that it is anticipatory. One should not expect a transition in progress to appear as it will if and when completed.

[In respect to the alleged lack of commingling of the economic and political apparatus, the objection is not well founded. Such commingling in managerial society is inevitable; and to the extent that economic managerialism exists in the United States, political managerialism is interfused with it. The locus of the two is to be found in the various alphabetical boards and commissions to which Congress has delegated its sovereign prerogative of legislating in detail. These agencies are more than administrative. They are also legislative and judicial. Thus they are microcosms of sovereignty within the sovereign cosmos of the state (pp. 147-151).]

The jurisdiction of each agency is limited according to subject matter, but the subject matter in each case is very broad in scope and importance. Control over the entire field of labor relations in businesses engaged in interstate commerce, for example, cuts a wide swath through the economy as a whole. Other such swaths are cut by similar controls over competitive practices, utilities, transportation, communications, the issuance of securities, and so on. Thus we readily see that the aggregate of state sovereignty delegated to the boards and commissions even before the war was very considerable. The boards are staffed by technical experts, economists and lawyers who constitute, in each instance, a managerial group. While there is a technical right of appeal

to the courts from the decisions of the managers, an appeal is usually fruitless, for the question it raises is not whether the decision appealed from was right or wrong, but whether there was any substantial evidence before the board tending to justify its action. If there was (and there usually is *some* such evidence), the decision of the board cannot be disturbed, even though the court, on the same record, might have decided the case the other way. In other words, the *power* of the board, within its particular sphere, is close to absolute. The controlling laws and precedents are not acts of Congress and judicial decisions, but the regulations framed and interpreted by the board itself.

Repeated attacks upon the creation of the boards or their administration, based upon constitutional grounds, have been launched by the capitalists through their lawyers. In a large majority of cases, the attacks have failed, and the constitutionality of the agencies or of their methods has been sustained by the Supreme Court of the United States. The reasons assigned by the Court, in the decisions favorable to the government (i.e., to the board or commission under attack), are, considering the authority from which they emanate, decisive as to the managerial future of American society if it cannot be redirected. They come simply to this: neither Congress nor the courts are suitable instrumentalities for dealing in detail with the manifold problems presented by the modern economy. Proper handling of such problems presupposes a store of specialized, technical knowledge and a quantity of available time not possessed by the constitutional organs of government. Consequently it is necessary to delegate the entire handling of such problems to appropriate agencies created and staffed for the purpose.

The same factors responsible for the creation of these special agencies preclude judicial interference with their work, unless it can be shown in a particular case that the agency has acted arbitrarily—that is to say, not on a basis which a court might regard as insufficient, but on a basis which a court is compelled to conclude is nonexistent. Any other

rule would entail a substitution of the court's judgment, upon the merits of the case, for that of the agency involved. But by hypothesis the court is not competent to form a reliable judgment upon the merits, since it lacks the necessary technical knowledge. Hence the need for the agency, and hence also its virtual immunity from attack—as long as the issues lie within the boundaries of a very broad discretion. Nobody, in short, may successfully *disagree* with an administrative tribunal's decision on a matter lying within its jurisdiction, so long as it was—or could have been—honestly reached.

These conclusions do not rest upon an affirmative belief in the ultimate social desirability of the managerial organization of society. They rest rather upon a conviction that such an organization has been rendered necessary, indeed inevitable, as a consequence of advances in technological and related fields of knowledge and practice; in the absence, at least, of any other form of social control or self-control. They constitute an admission, in the final analysis, that the mechanism of capitalism, economic and political, has reached a stage of development or decay at which it no longer meets minimum social demands, without the aid of external controls. The controls belong to the state, it is true, but not to the capitalist *limited* state of yore. They are "external" in the literal sense that they are external and, indeed, repugnant to the whole theory of capitalism. For these are the controls of managerial society—in embryo, but unmistakable.

Any social theory is an essay both in interpretation and in prediction. Because the method of the theory of the managerial revolution is scientific, its prediction that capitalism will eventually yield to managerialism, wholly and everywhere, rests upon a projection into the future of trends established in the past. This is not the same thing as saying that such a consummation is inevitable. It is inevitable if, but only if, no significant changes occur in the direction of the trends.

The theory does not preclude the possibility of inducing such changes.

The bulk of this book is concerned with an inquiry into the possibility of deflecting social forces, especially in this country, from their managerial course. It would be useless and perhaps mischievous, however, to conduct such an undertaking in a vacuum, or without regard to probable developments (in the absence of attempted guidance) in this country and in the rest of the world. Now that atomic power has been added to rapid transportation and communication, this is even more of a unitary world, in a mechanical sense, than Mr. Willkie observed. We must try to read the indicated future before seeking means of influencing it.

PART TWO: THE FUTURE OF MANAGERIAL SOCIETY

V.

Managerialism Moves Towards World Dominance

A CARELESS reading of *The Managerial Revolution* might suggest that its prediction has already gone awry, because it assumed that Russia would not figure in the Second World War except possibly as a victim of German aggression. To Professor Burnham, writing in 1940 and early 1941, that assumption was at least as pardonable as it was to our General Staff, who clung to it for several months after June 22, 1941.

The error arose from too schematic an application of the "managerial" thesis to current events, by way of illustration. It happened to illustrate the dangers of journalistic prophecy rather than the actual working out of the theory. But the theory itself indirectly benefited in consequence. Its tremendous sweep and scope stand forth even more clearly from a showing, however inadvertent, that victory in a particular nationalistic struggle between two managerial states is a mere detail, an episode, in the larger story.

To us who, at the moment, are interested in the larger story of unfolding managerialism, the Russo-German conflict is helpful in two other respects. It powerfully confirms the

notion, independently developed by Professor Burnham in his book, that the triumph of managerialism will not necessarily mean a rapprochement of the peoples involved in a spirit of amity and peace; but, on the contrary, a continuation of the international struggle for power characteristic of the capitalist era. Secondly, that war high-lights, as an element of the struggle, the competition for allies or satellites, in which revolutionary ideologies play an important part. Finland would have been a useful ally to Germany in any circumstances; but the nazification of the Finnish government made that country more useful, or at any rate more reliable, than it otherwise might have been. Similarly, Russia needed Lithuania, Latvia and Esthonia as buffers; but having secured the right to maintain garrisons in those countries, Russia proceeded to communize them, which it had explicitly promised not to do, and to incorporate them into the U.S.S.R.

Thus we see that the managerial revolution proceeds in two different dimensions at the same time: (a) horizontally, so to speak, among social classes without regard to international boundaries; and (b) vertically, between national states or coalitions of states. When war happens to be the vehicle of the struggle, the international aspects predominate, and necessarily so, since an armed conflict within a single country is usually described as a rebellion or insurrection rather than as a war. But even in time of war the horizontal struggle continues, and may play a vital part in paralyzing the enemy's defenses and subverting his will to resist. The speed of the French collapse in 1940 demonstrates that this is so. Between wars the horizontal struggle alone persists. Conceivably it might make war unnecessary, or a mere matter of marching in and occupying. The decisive question is always one of relative power. But power rests not alone upon the size of territory and population, military preparedness and industrial capacity; it rests also upon the state of public morale, for the latter greatly affects the ability of a society to mobilize and use its human and material resources. It is

essential to bear these principles in mind in assessing the future.

If the theory of the managerial revolution is correct, the future of managerial society will increasingly swallow up and merge with the future of society as a whole. Events since 1941 have tended to confirm this prediction. Their net effect is that the forces of capitalism are everywhere on the defensive against, or in retreat before, the managerial forces. Some of these forces, as in the United States and most of western Europe so far, are ideological, and express themselves in terms of internal tensions within national states. Elsewhere, notably in eastern Europe, but seemingly in eastern Asia also, the managerial forces have already assumed the form of state policy and are expressing themselves nationalistically.

From the standpoint of the theory and its prediction, it is immaterial how great a fragmentation occurs among the forces defined as "managerial"; that is to say, whether some managerial states call themselves "communist" while others call themselves "socialist," or whether they fight each other for supremacy or coalesce. From the standpoint of American policy, however, it makes a great deal of difference whether a single, vast, managerial superstate develops or, on the contrary, a number of lesser states which quarrel. We must preserve this distinction, in our attempt to forecast long-term developments abroad. We must begin with the situation in the Old World rather than in the New, because managerial developments are much more advanced there and present the general problem in its most acute form.

When we speak of the advances of communism in nationalistic terms, we are necessarily speaking primarily, if not exclusively, of the Soviet Union. Whatever contrary hopes may have been entertained at the time of the Yalta Declaration, it is now clear that purely unilateral Russian control can be exercised, whenever Moscow wishes, over Poland, Roumania, Bulgaria, Jugoslavia, Czechoslovakia, Hungary, Austria, Fin-

land, the Russian zone of occupation in Germany, Manchuria, Korea, and Inner as well as Outer Mongolia.

These are the states and regions either "liberated" by Soviet arms from the Germans or Japanese, gathered in when left dangling by the former sovereign (Outer Mongolia from China), or traversed (Inner Mongolia) in the course of other "liberations." They are either occupied by Russian garrisons or are adjacent to the Soviet Union or to regions which Russia occupies. From the standpoint of naked military power, therefore, they are all far more accessible to a preponderant Russian force than any of them is to any force which other states could dispatch, even assuming a disposition to so rash an undertaking. None of these states or regions has any considerable military force of its own. These circumstances suffice to spell Soviet hegemony.

To recognize this primary fact of nationalistic power is not to assume, or to argue, that it will necessarily be exercised to the ultimate extent of annexation. (I have omitted from the list the Baltic Republics, which already have been reannexed). The eastern European states are all nominally sovereign, and are governed by coalition governments in which, however, communists usually predominate. Most of them are bound to the Soviet Union (but not to one another) by trade treaties and other economic ties calculated to eliminate the necessity of direct political intervention.

The fiction of independence has been maintained for nearly twenty years in the case of Outer Mongolia, even to the point of exchanging "ambassadors" between Moscow and Ulan Bator. But in every important respect Outer Mongolia is governed from Moscow. It had its proper place in the various "Five Year Plans" and contributed something over its fair share to the nazi war. A recent plebiscite, which the communists won handily, extinguished the last pretensions of China to sovereignty over that region.

Under the postwar Sino-Soviet Pact, Manchuria was supposed to be turned back promptly to the National Government of China, with certain reservations in respect to Dairen

and Port Arthur. The Red Army nevertheless contrived to leave Chinese communists in control of most key points. Their leader, Mao Tse-tung, is an ex-member of the Comintern. While Kuomintang forces seem to have gained an ascendancy there for the time being, it is due more to Russia's acquiescence in the American-sponsored formula for "unifying" China than to superior power in the Central Government. A trial of strength has thus been postponed. It would be sheer wishfulness to assert that it has been obviated.

Lest we get the impression that these developments are a novelty in Russian history, and for that reason perhaps accidental and ephemeral, it is well to recall that they correspond roughly to the major imperialist trusts of the Czars. When we consider the managerial revolution in nationalistic terms, the ideological and institutional differences between one political regime and its predecessors melt into insignificance. Strategic position, natural resources, industrial and population concentrations, etc. hold out identical temptations to a nation engaged in expansion, whether or not, at a given moment, it is an absolute monarchy or some other variety of dictatorship.

The Czars busied themselves for a century with their efforts to move westward into central Europe. This dream culminated in three partitions of Poland, the last of which, in 1795, carried the Russian boundary to the west of Warsaw. The desire for a "window on the sea" was responsible for irruptions into Finland and along the Baltic. The related need for free access to warm water led to several unsuccessful wars with Turkey (and one with England) having control of the Dardanelles as their objective.

Yet despite the general resemblance between the power drive of the Czars in Europe and the new power drive of Soviet Russia, there is an enormous difference—the ultimate difference between failure and success. The creation of the Triple Alliance (Germany, Austria-Hungary and Italy) blocked further expansion to the west. After the partitions of Poland, Russia moved not one inch until the First World

War, which brought not only defeat but dissolution of the Imperial regime. Modern Russia, on the other hand, trampled into the earth the Anti-Commintern Pact and Hitler's "New Order in Europe," whose eastern reaches, called for ideological purposes a "bulwark against communism," were the present-day equivalent of the old Triple Alliance. For all practical purposes Russia now stands upon the Elbe and the Adriatic, except for Greece and the Dardanelles.

In Greece the ELAS rebellion against the British-sponsored government was spearheaded by the KKE, the Greek Communist Party. Although it was put down after sharp and protracted fighting, one cannot help wondering what will happen after the British garrison has been withdrawn. As for Turkey, Russia denounced its nonaggression pact with that country in the spring of 1945, and is currently demanding restoration of certain disputed territory in the Kars region.

In the Far East, beginning in the 1890's, Imperial Russia and Japan jockeyed continuously for ascendancy in Manchuria and Korea. Russian pressure southward towards an ice-free port motivated Japan's seizure of Port Arthur in the Sino-Japanese War of 1895, and "liberation" of Korea (which Japan annexed in 1910). Russian diplomatic pressure, backed by France and Germany, forced the relinquishment of Port Arthur, but Russia's own occupation of that strategic harbor soon afterwards precipitated the Russo-Japanese War. As a result of defeat in that war, Russia was forced to cede the southern half of Sakhalin Island (Karafuto), to give up Port Arthur and all Manchurian interests except the Russian-owned Chinese Eastern Railway, which runs across northern Manchuria and short-cuts a great loop in the Trans-Siberian Railway. Finally, as the result of the Japanese conquest of Manchuria in 1931, Soviet Russia was forced to sell the Chinese Eastern Railway to "Manchukuo."

All of these defeats and retreats Soviet Russia has now reversed. It can reach the Gulf of Chihli in one stride, whenever it chooses. Whether or not it will choose, and if so, will stop there or move on to the six northern provinces of China

proper, which Mao Tse-tung's communists dominate, is a question belonging to a later phase of our inquiry into the managerial future.

Our discussion thus far has been in nationalistic terms only, without regard to ideological factors and other intangibles. We have seen that Russian *hegemony* (not sovereignty) has already advanced farther west in Europe and farther down the Pacific coast of Asia than it has ever advanced before. The traditional equilibrium of powers in both regions has been destroyed, largely because of the elimination of Germany and Japan as counterweights. Whether all or some part or parts of the Russian hegemony will be converted into sovereignty is a question of expediency rather than of ability, unless the present ability should be neutralized in the future by internal stress and strain within the U.S.S.R. There is as yet no indication whatever of such a weakness, and it should therefore be left out of account, at least by non-Russians. It is well to remember that according to orthodox capitalist thinking until a few years ago, all four of the major managerial regimes were bound to collapse from inherent "unsoundness." None of them did.

The real question next to be considered, then, is not whether Russian sovereignty will be extended within the sphere of present hegemony, but whether the sphere of hegemony may itself be extended. This, in turn, raises two questions which are interrelated: (a) the appeal, and consequent vitality, of the communist bid for ideological and political leadership in areas beyond Russia's present sphere of influence; and (b) the counterappeal, if any, of the socialist bid for leadership.

The socialist and the communist parties of Europe are and always have been at loggerheads, despite the fact that both are Marxist.

The socialist movement is the older, stemming from the Second International of mid-nineteenth century. It makes up the reformist wing of Marxism, embracing all the ideology

and dialectic of the master but insisting upon a policy of gradualism, through constitutional or parliamentary machinery, as the means best calculated to achieve the free, classless and international organization of society. Here are to be found the Social Democratic Parties of Germany and Scandinavia, (formerly) part of the Labour Party of Great Britain, the Socialist Parties of France and Italy, etc. They were at first pure anathema to the rightist parties of monarchy and capitalism, but after the rise of the communists they began to be tolerated and later to some extent supported.

The communist, or Third International, movement was an offshoot of the socialist movement, led by hotheads who grew impatient of "gradualism." They make up the insurrectionary wing of Marxism, advocate the "world revolution of the world proletariat" and, under Stalin, run Russia. So intense has been the political rivalry and animosity between these two versions of Marxism that in the early 1930's, when the German Communist Party foresaw the threat of nazism and proposed to the Comintern that they make common cause with the social democrats against the nazis, word came back to join the nazis against the social democrats.

We may now trace the current phase of this seemingly endless squabble, beginning where we left off in Europe by jumping the Adriatic and by-passing Germany for the time being.

Italy, like most central and western European countries in the immediate postwar period, has a coalition government in which socialists officially predominate. However, the best organized and disciplined party in the country and the government is unquestionably the Communist Party, whose leader, Sig. Togliatti, is an ex-member of the Comintern. Moreover, the real center of communism in Italy, the industrial north, was freed from the nazis much later than the southern and central sections of the peninsula. The local governments in Milan, Turin, etc. are heavily communist, and are reported to have large caches of military materiel at

the disposal of guerrilla shock-troops which are known to exist. A merger of the Socialist and Communist Parties, proposed by the communists, was defeated by the socialists, with some help from British Labour's Professor Laski. While the socialists are precariously in the saddle for the time being, it would appear that this is more at the pleasure of the communists than by virtue of the strength of the socialists.

A position of similar potentiality in French politics is held by M. Thorez, also an ex-member of the Comintern, who fled to Russia in 1939 rather than bear arms in what the party line then denounced as a war of capitalist imperialism. As in Italy, a communist proposal for union with Leon Blum's Socialist Party was defeated, again with some help from the ubiquitous Professor Laski. But that fact has not prevented the Communist Party from scoring impressive gains in elections. Very recently it emerged in first place among all parties in the election held for the constitutional assembly, and has since forced the resignation of General De Gaulle as provisional President.

Elsewhere in western and northern Europe the story is much the same. The British- (Tory-) sponsored Belgian government-in-exile fell in 1944 and was replaced by a coalition headed by a socialist. The Dutch government-in-exile also fell. The social democrats still rule in the Scandinavian countries, but their formerly solid majorities have been cut deeply by unprecedented communist electoral victories. Spain and Portugal are "on ice" for the time being, but as to Spain it seems to be generally agreed, even by Franco, that the days of the present regime are numbered. The pre-civil-war Republican government, partly socialist and partly communist but with some changes in personnel, is waiting in Mexico for an opportunity to return.

[Thus we see that throughout western Europe (outside of Germany) the socialists and communists are maintaining approximate equilibrium, but in key countries such as France and Italy, one of dubious stability. The optimists of the West, especially in the United States, derive much comfort

from the fact that the socialists, rather than the communists, are in nominal control. They are further encouraged by the recent development even in eastern Europe, within the zone of Russian hegemony, of a non-communist or anti-communist opposition of sorts, of which the "Small Holders Party" of Hungary may be taken as the most clear-cut example.

But if our analysis of the immanent Russian military power in eastern Europe is sound, the existence there of these opposition parties must be due to Russian tolerance and not to Russian weakness. We need not cast about for refined or categorial explanations. It is natural to suppose that the Kremlin prefers a period of tranquillity to one of turbulence while it consolidates its newly-won position in the East. Economic, diplomatic and military integration would be the primary if not, indeed, the sole objective there. Rather full autonomy in local affairs, complete cultural diversity and even, in some cases (e.g. Outer Mongolia once again), nominal independence have been the normal rule throughout the U.S.S.R. Besides, a show of democracy in the eastern countries would go far to allay Anglo-American suspicions, and in the course of a short time might win from them diplomatic recognition of the governments—even coalition governments—emerging from semi-free elections. It would seem that Russia has everything to gain, and nothing important to lose, from a policy of tolerating political opposition, at least as long as it remains opposition; i.e., does not become the government of each country concerned.

If this reasoning holds good for eastern Europe, then obviously it holds good for western Europe also. The West is not within the immediate grip of Soviet power, as is the East. From this difference may emerge the apparent ascendancy of the socialists in the West. If a policy of tolerance (not necessarily different from one of opportunism) is in fact being pursued, it would naturally express itself as acceptance, for the time being, of the political *status quo*. We cannot be certain that this is the policy, but neither can we be certain that it is not. Therefore we cannot be sure that the seeming

socialist preponderance in the West is either real or permanent. All we can be reasonably confident about is that if and so long as Marshal "Tito" is ordered not to crush his nascent opposition in Belgrade, Sig. Togliatti will be ordered not to crush the socialists in Rome. The common background of these two leaders (and of Thorez in France) in the Comintern is a fairly reliable indication both of parallel inaction and of parallel action, if action develops.]

Before examining the possibility that the present lull in European politics will be succeeded by strife (with or without war or insurrection), we must take account of the position of capitalism. Have capitalist forces wholly disappeared? Almost certainly not, although it seems probable that to an appreciable degree they appear in disguise. The depression of the 1930's had the same general effect in western Europe as it had in America: mass unemployment and bankruptcy among industrial workers and small entrepreneurs. This was followed by the war and four years of nazi occupation, when many of the victims of depression experienced for the first time the mechanical advantage of a managerial economy over a capitalist one in providing steady employment. Finally came the liberation, which caused great destruction of life and property and of records of all sorts, title, financial, census, vital statistics, etc. Even more important was the systematic looting that went on under the nazis, with the result that many former owners, when identified, cannot be found; and that present owners turn out in many cases to be nazis, quislings and collaborationists.

For both physical and ideological reasons, therefore, many Europeans who formerly voted for centrist or rightist parties now vote the communist or socialist ticket. By and large it is reasonable to suppose that the vote of the industrial workers who like managerial organization and methods would go preponderantly communist, while the vote of the petty *bourgeoisie* would go predominantly socialist. The presumptive desire of the former small entrepreneurs to become small entrepreneurs again coincides neatly with the socialist program,

which is to nationalize at first only the basic industries and the great consumer services. The industrial workers, on the other hand, would naturally respond to the internal prospect of a "dictatorship of the proletariat," and to a foreign policy in harmony with that of Moscow, which would seem to hold out some hope of avoiding further wars. The capitalist vote has not been wholly redirected; but except in Great Britain it is running in third place, and often a rather poor third place.

Capitalist forces, then, will not again become dominant in Europe for a considerable time to come, if ever. Our attempt to forecast the future there must be in terms of the two great Marxist ideologies, identical in professed aim but historically antagonistic in method. This brings us to Great Britain, which, as the most powerful nation of western Europe now in the hands of a self-styled socialist government, is the natural representative of socialist aspirations upon the continent. We are also brought of necessity to Germany, which, though temporarily prostrate, is certain to rise again in somebody's hands as the cornerstone of the European economy, unless a convulsion of nature changes the basic facts of geography and geology. Since Germany is now occupied by an Anglo-French-American-Soviet coalition, it is also destined to become the primary theater of conflict between socialism and communism, if there is to be such a conflict. In order to determine as nearly as we can whether such a conflict will develop and, if so, what its consequences are likely to be, we must now examine British policy, historical and prospective.

It is desirable to clear up at the outset the differences, and they are minor so far as our purposes are concerned, between the present Labour government of Great Britain and the Conservative government which it succeeded in July, 1945. Virtually the only real difference is in domestic policy. It revolves around the Labour program of nationalization of the Bank of England, the coal mines, the telegraph and cable industry and commercial aviation. For the time being, at least,

such other basic industries as iron and steel, textiles, foreign shipping and chemicals are not to be nationalized, although it is proposed to subject some of them to national "planning," with a view particularly to modernizing their plants. Earlier Conservative or coalition governments had already nationalized the subsoil coal deposits, the electric power industry and the London transportation system. The late Conservative government had professed interest in national "planning" and social security *à la* Beveridge. Therefore it is easy to see that even this general difference is of degree, not of kind.

So far as foreign policy is concerned, the Attlee government appears to stand four-square with the Churchill government. This has been expressly stated in respect to Greece and Spain. It appears inferentially from Ernest Bevin's bid for a western European bloc, identical with but so far more promising than Eden's earlier bid. (Both have been frowned on by Moscow.) Most convincingly to this effect, however, are Great Britain's economic and geopolitical circumstances, which remain the same no matter what party is in power.

Great Britain is a small island which is very far from being self-sufficient in the basic necessities of life. It is literally true that for the British to sustain their prewar standard of living they must import fully half of all they consume, and in order to pay for the imports they must maintain an equal volume of exports. In the years just prior to 1939 visible exports (mostly manufactured goods) accounted for fifty per cent, on the average, of the import requirements. The other fifty per cent consisted of income from overseas capital investments, shipping charges earned by the merchant marine, the largest in the world, and "invisible exports" (insurance premiums, banking discounts, fees, commissions, etc.). During the war foreign capital investments have largely been liquidated and external debts have been incurred aggregating, apart from any accounting on lend-lease, approximately £4,000,000,000. Much of the merchant marine has been sunk. "Invisible exports" have dwindled as a result of the virtual

isolation imposed by the circumstances of the war itself. The consequence is that visible exports, the sole remaining resource, will have to be nearly doubled in order to balance the necessary minimum of imports and, in addition, to provide the means of handling the external debt. It is not surprising, therefore, that the British should be deeply concerned with their postwar position in world trade, and determined to restore and improve upon the overseas markets and commercial methods existing prior to 1939.

What existed before the war was not only a colonial empire which, with the Dominions, girdled the world. It included essential lines of communication, protected in part by strategic but nevertheless vulnerable naval bases, in part by keeping friendly governments in power along the imperial life lines through the export of capital where and when it was most needed, and in part by maintaining through diplomatic action and economic pressure a true balance of power in all vital regions. Thus it is obvious why Greece, which occupies a strategic position in the eastern Mediterranean and, moreover, owes Great Britain a large capital debt, was worth fighting for at the time of the KKE uprising. It is likewise easy to see why a "strong Germany," in view of the emergence of a strong Russia, is more essential to British policy than ever.

In British eyes, the elements of a strong Germany following 1945 must be *functionally* the equivalent of what made Germany strong prior to 1939. This is far from saying that Great Britain will desire a nazi Germany. It is very much to say, however, that Great Britain will *not* desire a communist Germany. What seems at once the likeliest and most practicable policy for the British to pursue in their own occupation zone of Germany (and, if possible, in the French and American zones as well) would be the restoration and nationalization of the prewar economy through the agency of a revitalized Social Democratic Party. Because all private owners of any consequence in nazi Germany were nazis, it would appear that a program of nationalization, if undertaken,

would have to go farther than is now contemplated in Great Britain. That is, it would include much if not all of the light industries as well as heavy industry, power, transportation and communications. Since the social democrats in Germany have long wanted to nationalize industry anyhow, such a program would appear to be feasible from the German political standpoint as well as desirable from the British standpoint.

It is true that such a policy would involve some internal dangers and other disadvantages. In the first place, German social democrats have heretofore demonstrated that they are Germans first and socialists afterwards. In 1914 they promptly pledged full support to the Kaiser's war, contrary to the confident expectation of the British socialist societies. Then, too, German industry tends to compete with much of British industry. However, in comparison with any conceivable alternatives in the light of the menace of communism, the British would probably accept the chance of German nationalistic resurgence under the social democrats as a calculated risk. Only one half of the old Reich would be involved, in any case. Economic competition the British would hope to solve through barter agreements or by adapting the familiar prewar cartel agreements allocating world markets; except that this time the latter would be negotiated by the two governments instead of privately. Moreover, German recovery in the West would mean European recovery in the West, and that would create a strong market for noncompeting British manufactures, such as textiles and Scotch whisky. Best of all, of course, would be the counterweight to Soviet domination in the East.

In Russian eyes the policy we have just ascribed to the British would be undiluted anathema. The Russians, too, can remember back to 1914 and also back to 1932 when they directed the German communists to join the nazis against the social democrats, rather than the social democrats against the nazis. Of one thing we may feel reasonably sure: the Soviet government will view any restoration of Germany by Germans (except under communist control) as a direct threat

to its own dearly-won power position in Europe generally and in the East particularly. Such a development would be resisted by all means, not excluding war; but in all probability the resistance would begin early enough to place the *onus* of starting a formal war, if any, upon the British.

The mere beginning of a reconstruction of a strong western Germany under British (or any other) auspices, or even the first definite attempt to fashion a western bloc of states now governed by socialists, might easily precipitate a "go ahead" signal to the communists also prominent in those states.

If this were done, coalition governments would fall; general strikes would paralyze the economies; riots and guerrilla fighting would break out. Western Germany would be isolated, except through the North Sea ports; a food shortage would rapidly grow acute; and German communists, armed and unarmed, would pour in from eastern Germany.

Yet apart from the hypothetical British policy we have been examining, what policy is open to Great Britain? We recur to the basic proposition that the British must export to live. They can and are trying to lay the foundations for increased trade with the United States; but the tentative agreement for a long-term credit may not be ratified in both countries. Alternatively, Great Britain could return to Empire Preference, block even more securely the blocked sterling balances and further tighten the belt. That, however, might cause the Dominions to break away, especially if commercial and financial blandishments were forthcoming from the United States. Even if such a policy could successfully be pursued, it would hardly solve the whole problem. Not only must Great Britain export to live but, if history is any guide, it must find an important fraction of its markets in Europe. Yet if there is to be trade with Europe, the European economies will have to be restored and expanded.

Moreover, since the semi-free trade of capitalism is gone, future trade in Europe will have to be conducted, from the British point of view, under government barter agreements,

commodity exchange controls or other restrictive devices insuring mutuality of advantage. Trade on any other basis, as under terms dictated wholly by the other party—Russia, for example—would immediately reduce Great Britain to the position of a satellite. The only area in Europe still open to British commercial penetration is the West. Reason based on necessity strongly suggests that penetration there will be attempted, be the dangers what they may. Indeed, if current news reports are accurate, a beginning has already been made —and frustrated. In the Allied Control Council in Germany, Russia reportedly proposed to fix German steel capacity per annum at 3,000,000 tons. The British, it is said, wanted to make it 12,000,000. Instead of compromising the difference evenly at 7,500,000 tons, the decision arrived at, 5,800,000 tons, favored the Russian position.

[We come, finally, to an estimate of the potential power situation in Europe and Asia. If the discussion thus far is anywhere near correct, the answer must be plain.]

From the standpoint of military power in Europe, the Soviet Union, with the states in its sphere of influence, clearly preponderates over Great Britain and anything to be mustered in western Europe, except, perhaps, in air power. (Sea power, of logistical importance to the West, would not be vital to the East.)

In terms of developed resources and industrial capacity, Europe west of the Elbe and Adriatic used to be powerful, but is and for some time will be damaged and badly disorganized. The effective resources of the U.S.S.R. are greater.

In terms of public morale, ideological devotion to the cause of socialism or to old-fashioned patriotism, we may assume that the West does not trail the East. But in the West the fragmentation both of nationalism as between states, and of socialism-communism within states, is very extensive. In the Soviet Union, on the other hand, and to a decisive extent within its sphere, there is no fragmentation. There is one dominant ideology, one dominant political party and, though

many peoples and several nations, one dominant will and purpose (we had better assume).

If Great Britain and western Europe are to have a destiny of their own, that is, a destiny not dictated by Moscow, it seems probable that their chance of winning it depends upon the nature, amount and timeliness of American aid to that end. If an independent destiny is not sought, or effective American help is not forthcoming, then it seems plain that the economies of Great Britain and western Europe will eventually become integrated with those of eastern Europe and Russia. If that should happen, then for all practical purposes the western frontier of the U.S.S.R. will be the Atlantic coast of Europe and its adjacent islands.

From the viewpoint of the United States, the situation in eastern Asia is strikingly similar to that in western Europe. There has been bad blood between the Kremlin and the Kuomintang ever since 1927, when Chiang Kai-shek, then carrying on the revolution started by Sun Yat-sen, rebuffed his overly-eager Russian advisers and forced a withdrawal of their mission. (It was then that Russia detached Outer Mongolia from China.) We have noted that an incipient civil war in northern China and Manchuria has been suppressed, for the time being, under a "unification" program proposed by the United States and assented to by the Soviet Union. The military ability of Chiang to uphold his end of the "unification" will depend very largely upon the help he can expect from this country. There is no reason to suppose that a weakening of American support for Chiang will be matched by a weakening of Russian support for Mao Tse-tung. On the contrary, every consideration of power politics suggests that American coyness, if and as it develops, will beget its opposite in the Kremlin.

VI

The Decline of the Capitalist States

WE MUST try to prevent our forecast of the probable future from becoming too categorial and schematic. If the sequence of developments in Europe and Asia we hypothesized in Chapter V (for illustrative purposes) should turn out differently, some readers will sigh with relief and conclude that the argument is wrong, even if the only difference is in the order of events. There can easily be such differences in arrangement. To balance one hypothesis against another, by way of example: An attempt by Great Britain to integrate economically the states of western Europe might not immediately induce the communist reaction we have supposed. Rather especially not if, at the time, Great Britain then had, but Russia had not yet developed, atomic ordnance. Alternatively, the immediate Russian reaction might take the form of grabbing the oil fields in Iraq and Iran, by means of seemingly spontaneous revolutions in those countries.

The point to be emphasized is that our real concern is with the ultimate relations of power in all its aspects, not with the identity of particular factors or episodes which make for or against an equation. The factors are numerous and complex, the possible episodes largely unpredictable because they are determined as much by opportunism as by preconceived plan.

The ratio of totals is what counts. Fortunately for our purposes, it is easier to predict aggregate power *relations* than *absolute* totals or their component parts. The reason is that social power is a function of social dynamics, multiplied by material resources. If the dynamics are approximately equal, the resources will be decisive (e.g., Russia *versus* Germany). If both dynamics and resources preponderate on one side, we see a push-over (e.g., Germany *versus* France). If the dynamics and resources are inversely unequal, the side with the dynamics has a chance of prevailing (e.g., Greece *versus* Italy before Germany intervened; Japan *versus* Russia in 1904). Material resources are fairly accurately known. Social dynamics can only be projected from past demonstrations, but there have been plenty of such demonstrations in the immediate past.

The prediction of the theory of the managerial revolution thus rests upon an inference from recent history that the dynamics of capitalism are declining, at least in relation to the dynamics of managerialism as a whole, and that material resources are likewise shifting to managerialism, though more slowly. The more specific prediction of our last chapter, that *within* and *between* managerial societies communism will prove stronger than socialism (plus any other non-communist "ism") in Europe and Asia, similarly means that the dynamics and resources of communism will be the more effective, especially in view of their more nearly unified organization.

At or before this point it will probably be objected that our discussion has attributed a deliberate policy of aggression, expansion or imperialism to the Soviet Union, which is contradicted both by the lack of any need for resources or territories beyond the U.S.S.R. and by the presumptive need to make good the Russian war losses. It is desirable, therefore, to clarify the sense in which I have used the term "social dynamics." Perhaps the objection can be met by making the assumptions it demands and asking some questions based upon them.

Definitely not required, and impossible to make, is an assumption that "Tito," Togliatti, Thorez, Mao and the other Russian-trained foreign communist leaders owe their present positions to mere coincidence. The law of probabilities alone would render such a notion fantastic. It is explicitly contradicted by all that we know of the history of the foreign parties and of their relationship to Moscow.

Take the behavior of the French party as circumstantial evidence: After 1935, when the Kremlin finally woke up to the peril of Hitler and ordained the Popular Front movement, the French communists cooperated fully with their old enemies, Leon Blum's socialists. In 1939, after the Soviet-German Pact was signed, the party line was switched back to hatred of capitalism and imperialism. Forthwith the French communists complied, and lifted not a finger when their own country was overrun by the nazis. After Hitler attacked Russia in 1941 and thus forced another shifting of the party line, the French communists suddenly woke up and became ardent workers in the resistance movement. In 1945, two years after the "dissolution" of the Comintern, the French communist, Duclos, denounced the unorthodox Earl Browder for temporizing with capitalism. Hastily and dutifully, the American party convened and replaced Browder with the orthodox William Z. Foster.

The only legitimate assumption we can be asked to make is that the mission of the communist parties of the West is again purely defensive; that is, to participate in coalition governments but to exercise a veto over any action or policy that might be construed in Moscow as hostile to the Soviet Union. It would follow as a necessary inference that if undesired action were nevertheless taken by the non-communist parties, it would become the duty of the communists to make all the trouble they could in order to frustrate it.

Now let us suppose that, because of economic crisis or for some other reason, the coalition governments in the West fell, and the communists were presented with an opportunity, perfectly peaceful and constitutional, to form govern-

ments of their own. Can there be any doubt that permission to do so would be forthcoming from Moscow? Is it not plain that their defensive mission would be far better accomplished by assuming sole power than by merely participating in a coalition or by acting as a watchful opposition? Would not the obvious policy then be to carry out the platform which political success had transformed into a mandate: to organize each country internally on the Soviet pattern, set its diplomatic course parallel to that of the Kremlin and negotiate trade agreements with Russia which in effect would tie the local economy to the Five Year Plans to come?

Such questions as the foregoing serve to emphasize the *ideological* aspects of the managerial revolution, and to remind us that it is a true social *revolution* as well as a struggle for power between national states. There are millions of individuals in Europe and Asia, but outside the Soviet Union, who would resent being gobbled up by an old-fashioned capitalist state; but who pin their hopes of social salvation upon an imitation of the Soviet organization, and expect some help in achieving it from the Soviet apparatus. It is this attitude, both widespread and intense, as well as aims and attitudes within the Soviet Union, that is included in the "social dynamics" mentioned above. The external and visible expressions of these dynamics will only occasionally and partially coincide with the abstract needs and even conveniences of the Soviet Union as a national state. However, "to free the world proletariat from the chains of capitalism" is a fundamental tenet of the Bolshevik program, and has been from the beginning. (In the dialectic, anything anti-communist is always "capitalist"—even socialism.) In assessing the probable course of the managerial revolution, it will not do to think in capitalist terms exclusively.

The dynamics of communism, then, are a composite of the dynamics of the several communist parties. Those of the Russian Communist Party have been demonstrated far more clearly and abundantly in recent years than those of the external parties. But unless the latter are to be assessed as a

minus quantity, which would be contrary to the observed facts as far as they go, the total dynamics are very compelling. True, the Russian demonstration reflects more than the strength of the party ideologies. It undoubtedly reflects Russian nationalistic patriotism, and also the mass anger of millions of western Russians aroused by the brutalities of the German invaders. But these individual motivations, however multifarious and diverse, were skillfully utilized by the state and Party apparatus, disciplined and welded into one. It does not detract from the skill of a great organist to point out that he did not make the pipes, the motor or the air pump. The governing elite of the Soviet Union very definitely played the stirring and effective Russian marches of 1941-1945. Moreover, it did make the console and most of the connections.

Just how effective the Russian performance has been does not appear clearly enough from an observation of the results achieved. Such a reading, though impressive in itself, is too static for our purposes. We are interested in noting, not merely where the Russians now stand, but the ground traversed and the time consumed in getting there. No elaborate analysis is required in this connection. We merely have to record the fact that the battles for Stalingrad, at once the herald of coming victory in the Second World War and the symbol of Russian might, took place just twenty-five years after Russia was flat on its back.

Efforts have been made to minimize this phenomenon, as by arguing that lend-lease and the air diversion in the West really did the trick. However apposite to later campaigns this contention may be, it does not apply to Stalingrad in 1942, when lend-lease deliveries amounted to little more than a token of good will and the air diversion in the West was in its infancy. What Stalingrad really proved was the unique ability of a regime that "could not last" to roll back the conqueror of Europe, after operating for a mere quarter-century, against internal and external opposition, a system of organization that "could not work." Granting that indi-

vidual human fortitude played a leading role in the drama. we cannot escape the fact that the sources of that fortitude, for a vast majority of the actors, were either created or manipulated by the Bolshevik regime. If we recall that Russia in 1917 was an agrarian land of illiterate peasants, riven by factions, with its most productive regions overrun by invaders, its industrial plant either smashed or disorganized and its resources largely undeveloped, the significance of Stalingrad looms even larger.

What Stalingrad may portend for the future is a relative question, not an absolute one. We have already weighed the chances of communism under the leadership of the U.S.S.R. against the chances of socialism under the leadership of Great Britain, and have found the scale inclining to the side of communism. We must now complete our experiment by estimating whether and how soon the dynamics of capitalism, under the leadership of the United States, are likely to be added to the socialist pan of the scale. This question may seem arbitrary, but it is the only one worth pursuing. Obviously, if the American weight is added to the communist weight (whether voluntarily or not) or if the socialist weight becomes a communist weight before the American weight is added at all, the general result is already apparent.

No one would deny that in terms of physical resources the power of the United States is enormous, probably greater than that of any other nation today. But whether these resources, when multiplied by the factor we have been calling "social dynamics," would yield a product as great as that existing in other countries, is a very different question. In the military sphere, we Americans have lately given to many geographic names a luster fully as bright as that of Stalingrad. But if we relate these exploits to what might reasonably have been expected of us, viewed *a priori* from the standpoint of twenty-five years earlier, we see that at best reasonable expectations were not exceeded; whereas in the case of Stalingrad, world-wide expectations (outside of Russia) were

completely confounded. To say that American attainments roughly equaled expectations is, however, too optimistic a statement. It is no disparagement of American heroism and skill in the field or of American miracles of production at home to point out that, if the dynamics of capitalism in this country and in other countries firmly capitalist in 1918 had continued their upward curve or even had held their own, the Second World War could hardly have happened.

Nor will it do to attribute the tragedy of 1939-1945 wholly to lack of clarity in capitalist political leadership. No doubt the insight of capitalist statesmen everywhere was substandard, even for democratic governments. But in democratic states, at least, political leadership inevitably reflects the practices and aspirations of the social forces at work in the respective democratic societies. If national policy, domestic and foreign, becomes incoherent and vacillating, the immediate cause may be lack of vision among the incumbents of high office. But the question then arises why men of that sort happen to occupy political offices carrying policy-making responsibilities. The answer may be that, in the surrounding circumstances, no leadership could be anything but confused and indecisive; or it may be that competent statesmen, adequate to the needs of the times, could not have been nominated or elected. In either case, the deeper roots are to be sought among irreconcilable conflicts in ideology or practical outlook among the governing and non-governing elite, and among the mounting resentments and increasing cynicism of the masses. The net result is a marked impairment, a semi-neutralization, of the social dynamics formerly prevailing.

We shall have occasion to examine later, in detail, some of the factors which transformed the victorious, capitalistic America of 1918 into the victorious, semi-managerial America of 1945. At this point we are concerned with the fact that the social transition in this country from capitalism to some form of managerialism has been, as yet, neither completed nor reversed; and with the resulting danger that our

social dynamics may reach their lowest effective point at the very time that maximum effectiveness is demanded.]

It will be quite generally conceded that the economy of the United States was subjected to managerial controls with great speed and considerable thoroughness during the war, and with it so much of the political power as became vested in WPB, WMC, OPA, WLB, FEA, OWI, ODT, Selective Service, OES and OWM. With the cessation of organized resistance, however, there has already developed a marked trend away from the managerial-militaristic organization of American society and towards what looks like predepression finance capitalism.

It is true that Congress has before it the Murray-Wagner "full employment" bill, which proposes a national resources budget as a foundation for further managerial intrusions into the economy if finance capitalism, which it assumes as a premise, again breaks down. It makes comparatively little difference to the character of our future (though it may to the speed with which that character is assumed) whether or not the bill is passed. If it is passed and finance capitalism again collapses, the new—or renewed—managerial thrusts then assured will topple the economy off its capitalistic base permanently. If the bill is not passed but finance capitalism again collapses, we shall have managerialism anyhow. Nothing in the bill or elsewhere holds out any hope that a new depression can be prevented by measures within the framework of finance capitalism. And not a little in current developments makes such a catastrophe probable.

Some unemployment as an incident to reconversion was inevitable in any case, but the unexpectedly sudden ending of the war and the equally unexpected speed of demobilization have greatly aggravated the problem. On the other hand, reconversion has been accomplished or is well advanced in many sectors well ahead of expectations. But instead of taking up their share of employment slack earlier than had been hoped, these sectors are now paralyzed by strikes in support of increased wage demands. No solution has been found ex-

cept plant seizures under wartime executive powers, and the wholly futile admonition to management to grant wage increases without increasing prices. Eventually, we may suppose, these strikes and others yet to come will end in collective bargaining agreements which do raise wages and will have the effect, either immediately or very quickly, of raising prices also. When that happens, both labor and management will find that they have priced themselves out of the market; that is, out of the vast market they could have had if the purchasing power of consumers *not* employed by industry had been consulted.

The potential foreign trade demand is also very great. It will materialize, however, only if long-term credits are extended to foreign governments. If the negotiations lately concluded with the British are any indication, the prevailing American attitude is still that of a commercial banker. A loan of billions to a friendly foreign government now leaning against the ropes is *not* dirt cheap at two per cent. Yet enough Congressmen may think so to prevent ratification.

Of possibly decisive importance to a capitalist economy is the size of the national debt. Yet with a debt of some three hundred billion dollars to be serviced, Congress chooses to make cuts in personal income taxes (as well as needed and salutary cuts in corporation income taxes), in the face of a decline in revenue because of increasing unemployment.

Economic vitality, though determinative in the long run, is not the only index of national power. In the military sphere, despite commitments in Germany and Japan and the equivocal progress, if any, of our diplomacy, our speedy demobilization under pressure of public demand has called forth grave comment from responsible leaders. General Eisenhower has pointed out that further troop withdrawals from Germany, if continued at the present rate, will soon reduce our forces there to the point of danger. Admiral King has doubted whether the navy could now handle a first-class engagement, so badly has it been disorganized. The air forces report a critical lack of competent ground crews. Everybody

agrees that the problem is one of replacement, but the opposition to peacetime conscription is mounting steadily.

If we assume, as we probably may, that most of these embarrassments are temporary, in the sense that tentative, *ad hoc* solutions for them will be improvised, what then may be expected to ensue?

Most clearly indicated is a post-reconversion production boom. The wartime savings of the country at large, chiefly in war bonds, are probably well enough distributed among all classes of consumers to create a very wide and strong early demand. If long-term credits are negotiated abroad, as in some form seems likely despite the inept start, foreign demand will be added to domestic demand. Under such circumstances the chief cause for worry would be, not that a boom would fail to materialize, but that it would. That is to say, in the absence of wartime controls over raw materials, labor, wages and prices, some of which have already been discarded and the rest apparently are soon to be, demand is likely to swamp supply and induce a price inflation. This, in turn, will lead to demands for still higher wages, and so on. Consumers in agriculture and the other nonindustrial sectors would quickly be squeezed out of the market after their savings had been spent, and depression conditions would begin to manifest themselves and to spread even while the industrial jamboree continued. To help it along and to create artificial demand as genuine demand began to shrink, credit inflation could be expected.

How long such a boom would last is anybody's guess; but probably not so long as most would wish, and many would think. The temptation to draw an analogy to the boom following the First World War, and to lay plans accordingly, would be strong, and the resulting estimate highly inaccurate. Some of the more obvious booby traps of 1924-1929 have been neutralized. Thus SEC controls could prevent a speculation in securities through brokers' loans. But there is nothing except the powers of the Federal Reserve Board to raise reserve requirements and alter discount rates, of dubious

efficacy under boom conditions, to prevent commercial banks from expanding credit and thus fostering security speculation through bank loans. Finance companies could similarly play fast and loose with future purchasing power. Genuine foreign demands, even if soundly financed, would come mostly from managerial states, whose aim it is to establish autarchic economies. Thus these demands would be directed towards self-sufficiency (machine tools, etc.) which, when attained, would dampen demand for consumer goods and dry up even a replacement market for capital goods. And always in the background would loom the national debt, with its insatiable demand for revenue.

Concurrently with the development of such a boom, we could expect the development of public sentiment to have done with war and all its works. Congress would be deluged with pleas to bring the rest of the boys back home from Germany and Japan. The Senate might ratify a lot of treaties, thinking thereby to have discharged this country's full responsibility towards the maintenance of peace. But when it comes to questions apparently internal in nature, such as the right to engage in any lawful business without interference and the right *not* to enlist in the army, the Senators would probably join the Representatives in paying heed to their mail bags.

Exhortations from the White House to keep up American participation in international affairs and to preserve what was left of the wartime economic controls, or to impose new ones before the boom got out of hand, would have small chance of being heeded. In the midst of active hostilities, Congress rejected a man-power control bill. How likely is it that Congress would suffer a continuance or renewal of economic controls long after the fighting had ceased? The probable withdrawal from Europe and Asia might not take the form of a return to isolation, at least in name. We might not repudiate any treaties, or recall our representatives from any international councils, boards or commissions. But almost surely there would be a change of heart, probably of the

party in power and, in that case, we would not implement any collective decisions or take any affirmative action that would interfere with the renewed illusion of infinite prosperity in an atmosphere of "100% Americanism."

When the bubble burst, as burst it would, a sharp and even violent swing back to managerialism is readily foreseeable. A new New Deal, or a re-deal of the old one from a heavily stacked deck, would be a practical certainty. By the time a domestic crisis of that magnitude had developed, an international crisis of equal or greater magnitude would be staring us in the face also. For the situation overseas would not then be what it was in 1933, when Hitler took over a prostrate Germany and Japan was just beginning its independent program of aggression. Our renewed preoccupation with finance capitalism and its catastrophic ending would have presented unparalleled geopolitical opportunities to the dominant forces of managerialism in Europe and Asia, which by no means would have been ignored or neglected.

Assuming that we had so far overcome our prejudices as to enter into trade agreements with the socialist states of western Europe and by other measures had been supporting their economies and that of Nationalist China, the collapse in this country would have abruptly terminated our aid to others. This debacle, when added to our assumed earlier withdrawal of troops from Europe and Asia, would have thrown so sharp and sudden a strain on the societies arrayed against communism that then, if not before, the forces of communism would seize the initiative. It would make little difference to the further unfolding of the future, except in detail, whether a communist Italy, Spain, France, Belgium, Holland, Germany, Scandinavia and even (perhaps) Great Britain and a communist northern (or all) China came to be incorporated into the organic U.S.S.R. or retained nominal independence. At best these countries would have become dependencies of the Soviet Union, and Soviet power, whether embodied in one government or in many, would stand supreme throughout the Old World. The dynamics of capitalism would have

reached the vanishing point, and the dynamics of the new managerialism in America would not yet have developed fully.

Once again, lest our forecast invite apparent contradiction and hence rejection by being overly explicit, it is well to recall that the result will fully vindicate the prediction even if it is reached by a different chain of events. In balancing the dynamics of communism against the dynamics of capitalism in the world of 1946, it is quite possible to be persuasive without being categorical. If we want to discern the relative capacities of communism, symbolized by Soviet Russia, and of finance capitalism, symbolized by the United States, to shape the future course of world history, we need only reflect upon the past course of world history.

It is no discovery of mine that an analogy may profitably be drawn between the phenomena of growth and decay in the individual organism and in the social organism which we call "society." The parallel is obviously not exact and not scientific; its value is purely metaphorical, just as is true of the figurative language of the "struggle for power." Nevertheless the value is real because it enables a picturesque and shorthand description of the historical process which could not otherwise be achieved. It does not explain causation, but it does illuminate behavior of an almost rhythmic recurrence, and therefore lays a foundation sufficiently solid to support a prophecy.

What has been going on in Russia these past twenty-five years is essentially the same as what happened during the great years of Athens and of Rome, throughout Europe following the Renaissance, and everywhere in the capitalist world until 1914. It is simply the accumulation and exuberant release of a peculiarly vital group energy. The particular direction of release and a part of its intensity may be, and often has been, motivated by fear based on rivalry. But the peculiar vitality of the energy is demonstrated by its triumph over competition, if any, and by its continued flow long after

the disappearance of any reasonable prospect of outside menace. Athens moved originally in the direction, first, of federation and later on, of empire, because of its fear of Sparta, Macedonia and Persia. But the Athenian Empire continued to expand after these dangers were removed; until, in fact, decay set in and prepared the way for Philip and Alexander. The striving for power by Rome was understandable enough as long as Carthage, Egypt and Macedonia loomed as threats; but after their elimination Rome went right on expanding until it circled the Mediterranean. The exploitation of virtually the entire world under the banners of capitalism has been rationalized in many ways, yet the only vindication that history requires or tolerates is not in absolute or final terms, but in the relative terms of power.

Thus it seems to be the nature of social energy, as it is of physical or biological energy, to find an outlet and exploit it until an equilibrium is reached. If we want to know why the Soviet Union will expand, we might ask ourselves why an acorn grows into an oak tree. The routes and timetables of expansion are not certain, but we may be sure that it will seek the paths of least resistance and persist until something like the law of diminishing returns is encountered. The law may manifest itself first in the form of internal stresses and strains, in which case expansion everywhere will cease simultaneously; or it may appear first in the form of localized external opposition, in which event the expansion may stop there but continue elsewhere.

Both the British Empire and the United States are familiar, in their respective capitalist histories, with what Soviet Russia will experience in its managerial history. Great Britain lost the thirteen American colonies in 1783 chiefly because it became too much trouble to hold them any longer, in view of the *elan vital* they had discovered within themselves, and the general European situation. Yet it was not then too much trouble to complete the conquest of India, although that country is much farther from England than America is, and Great Britain proceeded to do so. As a weak, young na-

tion we bought Louisiana from France and the Gulf strip and Florida from Spain, but we stole large parts of both territories from the weaker Indians, despite the treaties we had made with them. Mexico learned in Texas and California what it meant to have an ebullient national energy pent up across its frontiers, and so did Spain, 3,000 miles away, in 1898, and Colombia, when we decided to get the Panama isthmus without stopping to pay for it first.

The technique employed by Theodore Roosevelt in fomenting the revolt of the Colombian province of Panama should be especially enlightening to those who put such store in the formal pledges of the Soviet Union that it seeks no territorial aggrandizement. To the wielder of the "Big Stick" in the White House it did not appear as an act of aggression or of expansion to set off a revolution in Panama and then take over the Canal Zone. Neither does it appear to the Soviet government as an act of aggression or of expansion to admit within the Union a previously independent state whose own (communist controlled) government requests such admission, even if it takes an inspired revolt to install the local communist government in power in the first place. When the Soviet Union covets foreign territory in which the local communist party is not strong, it uses its influence to democratize the region and thereafter, under the protection of minority groups which democracy provides, builds up the local communists until they are strong enough to gain or seize power and petition for union with Russia. This technique, employed in Lithuania, Latvia, Estonia and eastern Poland in 1939,[1] may seem shocking to us today, but it is precisely analogous to what the United States did in colonizing Texas with Americans in the 1840's and then instigating its secession from Mexico and incorporation into our own federal union.

The reason why the Russians are doing today what we did one hundred years ago is not that they have failed to reach a

[1] For a more detailed study of the mechanics employed in the conduct of Soviet foreign policy see *Russia and Postwar Europe* (pp. 65-80, 174-207), by David J. Dallin. New Haven: Yale University Press, 1943.

higher moral plateau which we have successfully gained, but that they have acquired, while we have lost, an internal source of energy which appears to be inexhaustible because it has not yet been measured. We may not be able to identify this source exactly, but we do know that it exists and that, perforce, it lurks somewhere within the general framework of the Soviet state, which is the dominant form of the general organization we have described as managerial; just as we know that its counterpart is disappearing from the general organization of society which is described as capitalist.

If the forces of communism expand until they stand upon the eastern coasts of the Atlantic and the western coasts of the Pacific, the situation then confronting the Americas could not be resolved without war. The technical name for it is "encirclement," and is particularly descriptive when applied to the hemispheres of this spherical earth. It is what the propagandists of 1942 had in mind when they put out the fright maps showing a Swastika in the Atlantic Ocean and a Rising Sun in the Pacific. The new fright maps would be more frightening still, for the Hammer and Sickle they would display in both oceans would symbolize complete coordination between East and West, which was lacking in the 1940's. More than that, however, these new maps would emphasize the great circle air routes across the Polar regions, leading from the heartland of Eurasia into the least defensible regions of North America. They would likewise show the Aleutian-Alaskan land bridge, which is far more accessible to Siberia than it is to Japan.

The new war, in all probability, would not be started by the world union of communism. It would be started by managerial America, for the simple but sufficient reason that the United States cannot live (as will be shown more fully later) if its foreign commerce is interdicted, or determined exclusively by others. If it be assumed that commerce with tropical South America would sufficiently complement our own resources to enable us to get along, there would be no basis for

the further assumption that such commerce would remain open to us. In the circumstances pictured above, South America below the "bulge," which has always been oriented towards Europe, would already have yielded to diplomatic and economic pressure from overseas. The western coasts of South America and Mexico are long and defenseless. Between the two lies the Panama Canal. It would not stay American very long, and thus would fall the Caribbean littoral.

The prospect of a Third World War in, say, 1960 seems highly speculative, if not fantastic, when viewed from the standpoint of 1946. But so would 1939 have looked if viewed from the standpoint of 1919. We must try to remember that war or peace in 1960 will not depend in very large part upon the events of that year, or of 1959, or of 1958. It will depend in increasing measure upon the events of 1946, 1947, 1948, and so on. Any disposition to shrug this thought aside will be reminiscent of Louis XV's famous dictum, *"Après moi le déluge."* And Louis came late enough in his line to be adjudged the spokesman for a society already decadent, though still powerful.

VII

Managerial Society at Peace

IT WOULD be idle speculation to attempt a blow-by-blow forecast of the Third World War of the twentieth century, which would be the first simon-pure test of strength between competing managerial societies, uncomplicated by the presence of capitalist interests. It is worth while to reflect, however, that if the chronological sequence of developments should turn out to be as predicted above, there is no basis whatever for supposing that the Western Hemisphere could break its encirclement by the Eastern Hemisphere. If, however, this proved not to be true or, if true, North America and its tropical South American hinterland succeeded in a subsequent war in breaking away from Old World control and set up shop for themselves on a managerial basis, so that the power relations between world managerial states became defined and to some extent stabilized, what then might managerial society be like for its inhabitants? Would the managerial state at peace be more attractive than the capitalist state at peace? This question is clearly pertinent to our general inquiry into the future of managerial society, even though it now is and for the next two or three decades will remain largely academic.

No elaborate answer can be attempted, for the reason that there is no evidence at hand, either direct or circumstantial, of a managerial society at peace in the real sense of not preparing for war. Certainly the Soviet Union, the first of the managerial societies to emerge from capitalism, was born into a world at war and has never been free of the thought of war

as a guiding and determining influence. The same was true of Italy, Germany and Japan, if we may regard Japan as managerial in more than the economic sense. (Its partly feudal and wholly Oriental political institutions did not preclude such an assumption, since its economy was certainly managed and its polity was totalitarian.) But while no demonstration has yet taken place of the nature of managerial society at peace, rather obvious theoretical considerations point to the conclusion that in terms of individualist human values, managerial society at peace would not differ greatly from managerial society at war.

There has appeared in the United States, chiefly during the past decade, a considerable body of opinion which maintains that the aberrations of the finance-capitalist economy can be controlled by government without prejudice to the democratic political process or to individual human freedoms. These views differ from one another in detail, though principally in respect to the emphasis placed on particular kinds of control. They agree, however, as to the need for a national resources budget, such as that provided for by the Murray-Wagner "full employment" bill, as the basis of control. One such school of thought, of which Dr. Mordecai Ezekiel is a prominent advocate,[1] stresses the direct control of private production through the formulation of an over-all plan. A closely related school, sponsored by Secretary Wallace,[2] would make up any deficit in budgeted productivity and employment through programs of public works, chiefly of a developmental, conservation and public health character. A third view, held by Dr. John H. G. Pierson,[3] emphasizes monetary and fiscal measures as the prime technique of control.

There is much to be said in favor of these programs if the

[1] *Jobs For All Through Industrial Expansion*, by Mordecai Ezekiel. New York: Alfred A. Knopf, Inc., 1939.

[2] *Sixty Million Jobs*, by Henry A. Wallace. New York: Reynal & Hitchcock and Simon & Schuster, 1945.

[3] *Full Employment*, by John H. G. Pierson. New Haven: Yale University Press, 1941.

objective is to complete, in a prompt yet orderly fashion, the transition from finance capitalism to managerialism in the United States. I do not believe that such a consummation would serve the abiding interests and values of the American people as well as the proposals developed later in this book, but, as was conceded in Chapter I, it may be already too late to work out our best salvation. There should be no illusion, however, that the proposals of the full employment planners, if adopted, would operate within the scope of the established tradition of individual freedoms. Though not all of them are managerial in conception, they are so in necessary consequence. It is worth while to see why before exploring the general question of the nature and temper of managerial society at peace.

The program for the direct control of private production by plan is particularly deceptive because of the seeming democratic guaranties it throws around the process of planning. The plan does not emerge full-blown from a central planning agency. It evolves from the bottom up, beginning with production estimates by individual producers. These are then correlated according to industries, by a board in each case composed of representatives of capital, labor and the public. The industrial plans, in turn, are correlated and adjusted by a central planning agency similarly constituted, and the government guarantees to buy, at a discount from the stipulated prices, whatever is produced according to plan but remains unsold at the prices indicated.

If the function of the planning apparatus is merely to add up the estimates privately made and report them, without change, to the guaranteeing agency, the planning apparatus is redundant. A statistical reporting system running direct from private producers to the Department of Commerce, for example, would serve as well. But more than this is meant. The function of the planning agencies is to plan. Private estimates may be the starting point, the raw data, of planning; but implicit in the very concept of planning are the power and authority to make such changes in the quantities, quali-

ties and prices of raw materials, semifinished goods and final products as are necessary to a coherent, balanced plan meeting some national objective, such as full employment. The objective may be wholly admirable. But its attainment by such means would not be a manifestation of free enterprise. It would be a manifestation of public enterprise publicly planned but privately executed under contracts indistinguishable in effect from those under which government-owned war plants were privately operated.

The public works school of thought really finesses the whole problem by focusing attention on something else, wholly worthy in itself but quite irrelevant to the main issue. If and when private production bogs down, this school argues, we should take off the shelf compensatory projects of public works already prepared against the rainy day and use them for the double purpose of taking up the slack in employment and improving the quantity or quality of available public facilities.

There are two objections to this line of reasoning. One is that there are obvious technical difficulties in the way of taking up the employment slack. If automobile production in Detroit is sharply reduced because of a depression, it would scarcely be a satisfactory answer to the toolmakers, assembly-line operators and other specialists thus thrown out of work to set them to moving earth for the building of a dam in the Missouri Valley. Quite apart from the cross-country trek involved, the sacrifice of specialized skills would be alike distasteful to the workers and wasteful from the standpoint of the economic utilization of resources. In the latter respect a substitution of, say, the construction of a free public hospital in Wayne County, Michigan, for the Missouri Valley dam would not provide an acceptable solution. The skills required would still be different.

In the second place, it is highly questionable whether a consuming public that needs or wants automobiles, parts, tires and accessories would be satisfied instead with flood control dams or even free public hospitals. Granted that

more dams and hospitals are needed, the need is obviously in addition to, and not a substitute for, other needs for consumer goods. If the automobile business bogs down, it will have to be picked up again, by state intervention in the form of direct planning if no other inducement or stimulus avails. Clearly the business of automobile workers, from the social point of view as well as in their own or any private interest, is to produce automobiles, not dams or hospitals.

The fiscal control protagonists seize upon the fact that the flow of goods and services through the channels of production and distribution creates an equal and opposite flow of money through the same channels. Conceding that production and distribution have historically been (and, for the most part, should remain) the private concern of free enterprise, they point out that the control of money (with the prominent but incomplete exception of bank credit) has historically been within the province of government. Why not, they ask, control production and distribution indirectly by controlling money, or its flow, with that end consciously in view? Economists sharing this outlook no longer pin their faith on such crude New Deal maneuvers as the sudden and drastic devaluation of the dollar. Instead they talk, for the most part, about flexible tax and fiscal policies, such as the administrative raising and lowering (within limits to be fixed by Congress) of interest rates, income tax rates, payments into and benefits payable by the Social Security Fund, and the like.

It is true that fiscal policies can affect very markedly the general level of productive-distributive activities. The danger here is, not that fiscal measures would be inefficacious, but that they would be excessively the opposite. In order to see why, let us suppose that inflationary (but not crude) fiscal steps are taken during a slump to stimulate recovery. They might take the form of a lowering by the Federal Reserve Board of reserve requirements, an increase in social security benefits and a partial forgiveness (under a flexible system) of personal income tax liabilities. Consumer demand is thus

strengthened, and production begins to rise. If spending keeps on increasing as momentum is picked up, saving and the formation of needed capital begin to fall behind, in a relative sense. It will then be the duty and desire of the fiscal manipulators to check the activity they stimulated before it turns into an inflationary boom. They can do this by reversing the actions previously taken, or by adopting other measures having a deflationary tendency.

What would happen next, according to the lessons of experience, would be a sudden and drastic deflation. An example of this phenomenon occurred in the summer of 1937, by which time unemployment had dropped to around 7,000,000 from a depression high of around 12,000,000 in 1932. President Roosevelt, fearing inflation, then remarked that wholesale commodity prices were too high. Restrictive measures, partly in WPA employment but also fiscal in nature, were taken. In 1938 unemployment stood again at nearly 11,000,000.

The clear inference from this example (and it could be multiplied) is that corrective fiscal measures taken to check an inflation once started are very likely to overcorrect. It is true that opposite action can then be taken to start a new inflation. But plainly, such maneuvers and countermaneuvers do not eliminate cyclical gyrations, they only alter their rhythm and pattern. Massive unemployment, appearing, disappearing and reappearing in rapid alternation, is hardly less objectionable than an ebb and flow quantitatively the same but slower in tempo. It is still essential to jump in with programs of work relief or, more probable in the long run, with schemes of controlled production operating directly upon the instruments of production.

I do not wish to be understood as impugning any and all forms of fiscal policy as a means of correcting the aberrations of a free enterprise economy. Obviously, any highly developed economy is bound to be tied together and to the society which it serves by an elaborate web of fiscal and monetary institutions and practices, whose activity (whether con-

sciously directed to that end or not) is certain to have repercussions upon the productive-distributive sequences. I accept of necessity that basic fact of economic life, and I agree that its functioning should be conscious rather than unconscious or blind. The point I wish to emphasize here is that it may make a great deal of difference to the health and, indeed, to the survival chances of a free enterprise system what kinds of fiscal measures are resorted to, and particularly whether they may be adopted or discarded without warning by a bureaucracy or, on the other hand, only through separate action by Congress in each case. The view implied by the latter question may seem old-fashioned, but it is crucial. Administrative action, taken suddenly and without warning, demoralizes the business world and stampedes it far beyond the expectations or desires of the manipulators. The reasons are psychological, but so is the whole motivation of capitalism, which will take risks only when uncertainties are minimal.]

[Thus we see that the policies advocated by the more prominent among the "planning" theorists do not avoid but, on the contrary, compel the conclusion that for one reason or another direct control of the instruments of production will be forced upon the state if the control of finance capitalism by any kind of state planning is attempted.] We must now examine the assumption common to them all that the function of planning can be kept subject to the political control of the democratic process. A convenient approach to this general problem is afforded by the claims of a variant of the "blueprint" school of thought, who contend: (1) that consumer preference, at least, can be preserved by making market analysis the basis of planning; and (2) that the plan itself can be embodied in a flexible tax structure which would encourage production of the goods in the quantities shown to be desired by the market analysis, and would penalize deviations from the schedules so worked out.

[The suggested use of taxation as an instrumentality for achieving a desired social result is interesting and fruitful. But the particular use recommended, as well as the different

arguments of those proponents of planning who have worked out the other mechanisms we have considered, all come to grief over two simple but fundamental propositions: first, that the success of any over-all economic plan is entirely dependent upon the vindication of the assumptions upon which it is based; and, second, that there can be no assurance of such vindication, and often little or no actual vindication, if the tangible factors in the plan—production and consumption—are given the right of self-determination. A moment's reflection will indicate why and how completely this must be true.[1]

Starting with the hypothetical market analysis (if that is to be the foundation of the master plan), it is clear that the analysis *must* turn out to be correct, or the whole undertaking will go awry. If producers are allowed to experiment with consumers' (and intermediate) markets as heretofore by advertising and offering new products, new materials or new types of service, it is plain that the then current market analysis will be upset by the development of demands not contemplated by it and by a corresponding abstention of prospective purchasers from goods that had become obsolete or relatively unattractive subsequent to the making of the analysis. Similarly, the production schedules called for by the market analysis will not be met if producers are to be left free to divert working capital, raw materials and manpower into avenues of development and production not covered by the master plan. The necessary consequence of such freedoms therefore would be: (1) excess of supply over actual demand in all categories from which prospective demand had been lured away by the successful competition of new goods, and (2) excess of demand over supply in all categories in which new competition had proved successful, with a consequent inflation of prices in such lines. In an effort to rectify

[1] Readers interested in devoting more than a moment's reflection to this topic are referred to the comprehensive and brilliant discussion of it in *The Road to Serfdom*, by Friedrich A. Hayek. Chicago: University of Chicago Press, 1944.

the situation a price control and rationing system might be introduced, but its effect would be largely offset by the black markets which would immediately spring up.

Actually to plug the loopholes latent in the very scheme of production control through incentive taxation would require the abandonment of the scheme in favor of outright coercion. Free markets, even conditionally free markets, for capital goods, raw or semifinished materials, for labor *and* for the consumer would be inconsistent with the objective of balancing supply and demand according to plan. Goods not called for by the market analysis could not be allowed to compete with goods indicated by the analysis, and therefore could not be allowed to come into existence. On the other hand, goods seemingly demanded by the analysis must be produced in the quantities specified and completely distributed. This implies, of necessity, control of prices and wages as well as a channeling of material and labor supplies. Obviously none of these economic requirements could be met if there were to be any political control of the plan or of the planners. Political interference would utterly defeat the working of the planned economy, just as the whims of consumers and the inventive ingenuity of producers would also be obnoxious to it and, in the long run, intolerable.

The stubborn fact about planned economies which we must face squarely and unflinchingly is that they are incompatible with individual human freedoms. They can be made to provide job security, vacations, retirement security and health insurance; but they admit of no choice as to where one will work, at what, or for what wage or salary. They imply, moreover, a totalitarian form of government because, unless the planners of the economy are identical with the planners and executives of state policy, there will be political interference which is equally fatal. The master economic plan *is* the master state policy, or the core of it; and for that reason cannot be permitted to fail. Under capitalism, the decentralized planning of private entrepreneurs can and often does go wrong. If the failures are simultaneous and ex-

tensive, a proportionate economic crisis results, which may throw a severe strain on the capitalist state. But under the capitalist system it is not the *state* that fails, it is the private citizens who control access to the instruments of production. In managerial society, on the other hand, failure of the economic plan would mean failure of the state *per se,* for it is the state, and not private citizens, which controls access to the instruments of production and does the planning. There is thus no escape from the conclusion that a planned economy connotes, of necessity, complete regimentation backed up by the coercive instruments of the state.

One other conclusion that should not be lost from view is that despite the advantages of a planned economy, its efficacy in improving the standard of living would in all probability be far inferior to that of capitalism during a period when capitalism happened to be working well, i.e., not in a slump or depression. For the crucial factor of commercial competition in the free market, to which the capitalist world owes all that it has achieved in the way of a rich and varied supply of material things, would be wholly lacking in managerial society.

It is true that the profit motive is not the only possible mainspring of constructive economic behavior. Competition for personal power and prestige has been a prominent urge in all historical societies, and certainly has not disappeared in managerial times. Competition of this sort may be very constructive, as, for example, when it is based on individual skills, efficiencies, or creative imagination. In assaying the relative efficacy of the managerial type of organization in raising the standard of living, however, we must distinguish between two different kinds of individual resourcefulness: one, operating within the scope of the established norm, discovers short cuts, improved techniques of manufacture or cheaper ways of performing a given process; the other, challenging the established norm, seeks new products, or inherent improvement of old products through refinements, the incorporation of new gadgets or the use of new materials.

While both varieties of excellence might exist under managerialism in given individuals, it is quite clear that the second, at least, would not be prominent enough to leaven the lump. For improvements of the second sort have repercussions of varying intensity in other parts of the productive economy. Under a managerial system such innovations, if important, would disturb or even eliminate other segments of the empire in charge of other individual managers. The latter would stoutly resist any and all departures from the fixed designs, specifications or routines which would or could in any way threaten or diminish their own importance or prerogatives. It would be a bold manager indeed who would dare to draw upon himself the antagonism of his equals and the probable wrath of his superior, to whom complaints would be made. He would have to be altruistic as well as bold to embark upon such a dangerous course in the interest of the consuming public, with which he personally would not be much concerned.

There is room for doubt also as to the likelihood of excellence of the first type, efficiency in the narrower sense, appearing to an important degree in the managerial economy. Efficiency makes enemies as well as friends. Most of the capitalist inducement to efficiency, the desire to cut costs, would be lost under the managerial setup, part of whose purpose would be to provide maximum employment. Workers discharged because they were no longer needed would be more bitter against the state manager than they are against the capitalist manager. They would feel, and rightly, that the state manager was under no compulsion to fire them. And in the great majority of cases the state manager himself would feel the same way and would not fire them. He would know that the best way to appear important to his colleagues and superiors is to expand his organization, not turn back to the planners some of the bodies they have voluntarily assigned to him. The primrose path to glory in any large governmental organization is not efficiency; it is a willingness to

please, to accommodate, to curry favor. Everybody who has had any experience with a bureaucracy knows that.

Finally, account should be taken of the argument that a planned economy would be efficient in peacetime because it is efficient, or at least necessary, in wartime. The argument misconceives its own grounds. A planned economy is essential nowadays in wartime (it was not necessary and did not exist in the heyday of capitalism) not because its individual processes are conducted more efficiently, but because the capitalist system makes no provision for the centralized figuring of the vast economic requirements of modern, total war; because the capitalist profit motive cannot be allowed to interfere with the needed war production; and, in short, because only the planned economy can insure quantity and speed *regardless* of costs.

Moreover, it by no means follows that because wartime economic planners can figure military production requirements with reasonable accuracy, peacetime planners could figure peacetime production requirements in an equally satisfactory manner. Military requirements stem from a military strategic policy which, though complex, is at least finite in the sense of being the handiwork of a comparatively small number of individuals. Peacetime requirements, by way of contrast, are the sum total of the tastes and desires of all the millions of individuals who have money to spend and who, moreover, are constantly changing their minds. To woo the public is a precarious business, as capitalists well know. To managers it would be an intolerable business. In a managerial society, therefore, the public will have its choices as consumers, as well as in other respects, determined for it in advance; and the standard of living, though perhaps adequate, will be characterized by a flat, dull sameness.

Thus it is the irony, as well as the dilemma, of this age that if maximum opportunity for individual self-expression in all spheres of human activity remains as desirable as men have thought it for five hundred years, it is within the general framework of capitalist institutions and relations, and not of

managerial institutions and relations, that the brightest hope still lies. The alternative material value of maximum security, and the alternative spiritual value (if any) of compulsory subordination of the individual interest to the group interest, appear most prominently in the managerial form of social organization. No real choice between the two may still be open to us. But in any case there should be no doubt but that the two sets of values are mutually exclusive. The supremacy of the group means the extinction of the individual as a *person.*

PART THREE: CAPITALISM IN THEORY AND PRACTICE

VIII

The Background of Modern Capitalism

[IF THE conclusions reached in Chapter VI are sound, we face a truly extraordinary spectacle: the most powerful nation on earth for the time being, still devoted to an ideal of personal, economic and political liberty and emerging in triumph from a world struggle against forces bent on destroying that ideal, about to succumb, nevertheless, to the very philosophy of regimentation against which, on the ideological side, the war was fought; and about to do so in such a way and at such a time as to sacrifice not only its ideal but also its power position.]

The ironic dilemma posed by our situation clearly appears from the contemporary utterances of American intellectuals, of which the following is a representative example:

> "There is need for a new social philosophy, for a formula that will reconcile the values of individual freedom and social security, that will harmonize respect for the worth of the human spirit, the dignity of the individual, and the need for personal liberty with the requirements of social discipline and centralized control of social and economic planning." [1]

[1] *America's Strategy in World Politics* (p. 217) by Nicholas John Spykman. New York: Harcourt, Brace and Company, 1942.

The dilemma is plain enough. The irony inheres in the conception of the problem, which, as stated, is insoluble. For if our scrutiny of the progress of the managerial revolution has taught us anything at all, it is that the "requirements of . . . centralized control of social and economic planning" are incompatible with "respect for the worth of the human spirit, the dignity of the individual and the need for personal liberty." A quest after such a formula will result either in complete frustration, in which event the managerial revolution will pursue its course unaffected by any counterrevolutionary efforts on our part; or in some kind of compromise which will give us a centralized planning agency that cannot function successfully because it is not endowed with sufficient coercive powers, and a badly impaired set of liberties that cannot last.

Is our situation, then, entirely hopeless? It would appear to be, if we insist on a centralized planning agency. But if we started at the opposite end, with the liberties we presumably wish to preserve, and explored the extent (if any) to which social security might be achieved *without* having recourse to managerial planning, a line of inquiry would open up to us not leading, of necessity, to a dead end. But, it will be objected, any solution along such a line would be nothing but capitalism all over again and capitalism, it has just been demonstrated, can no longer work; is, in fact, being engulfed all over the world by the rising tide of managerialism.

It is true that *finance* capitalism has broken down and is being superseded by the anticapitalist form of social organization defined as managerial. But to recognize this is not at all the same thing as to declare that *capitalism* has lost its power to express itself in some new mode which can perform the essential tasks of society and which (if it does so better on the whole than managerialism) may ultimately prevail over managerialism.

It has previously been pointed out that in its life of approximately five hundred years capitalism has passed through several phases. The current phase is usually called "finance"

capitalism to distinguish it from "industrial" capitalism, which preceded it, and from "mercantilist" capitalism, which was the most primitive phase. Both "mercantilist" capitalism and "industrial" capitalism died in the sense that they eventually ceased to give the dominant form and line to the economic structure of society, although each in turn lingered on in the following phase as a minor variant. Industrial capitalism ("little business") is still a prominent, though subordinate, phenomenon of the present period.

Therefore, to say that because finance capitalism is dying managerialism must, of necessity, take its place, is both to deny the theoretical capacity of capitalism to evolve further, and to assert that managerialism is the only conceivable alternative to finance capitalism. Possibly this may turn out to be the case, but if it is, we have yet to experience it. All we know so far from the observed realities about us is that *finance* capitalism *is* yielding to managerialism; not that *capitalism* because of its very nature *must* do so. It may be encouraging to recall that Karl Marx once thought that socialism was the only possible alternative to capitalism, and that the advent of managerialism proved him wrong. "Either or" arguments are logically unassailable only if the major premise is sound.

The failure of a capitalist answer to the threat of managerialism to materialize thus far may seem decisive against the existence of any such answer, at least so far as this country is concerned. Before we accept as conclusive evidence of so negative a character, however, we should remark the alternate interpretation to which, as a matter of logic, it is equally open: that in the United States capitalism has been given no opportunity to synthesize, out of its rich accumulated experience, an answer to managerialism, because the social legislation of the New Deal era was entirely managerial in character, and was so quickly adopted as to preclude the possibility that capitalist solutions were even sought, much less considered. One would hardly expect a sick person to recover if his deadly enemy were sent to nurse him.

There is stronger motivation for a re-examination of capitalism than mere wishfulness, or the negative knowledge that it is not foredoomed to failure by the evidence already at hand, or by theoretical considerations. On the positive side, we know that under capitalism destructive economic processes and regenerative processes have developed side by side, and prevail alternately. We see the evidence of the first in recurring depressions, and the evidence of the second in ever stronger recoveries, until the period of the First World War and its aftermath. If, therefore, we can identify these opposing forces within even broad categories, and deduce from *successful* capitalist practices bits and pieces which, if fitted together, would seem to make up an empirical method for discouraging the one and encouraging the other, we would have at hand something that might be sold on approval. Whether or not the approval would be forthcoming would depend upon the results of an actual test. The sale upon approval necessary to the making of a test would have to take the form of successful political action in response to a popular demand. The possibility of arousing such a demand, in turn, depends largely upon ideological factors which we shall consider in Chapter XXIX.

Let us now undertake, therefore, what the New Deal might have undertaken in 1933 had it not been deflected into managerialism by the very urgency of the capitalist crisis: a search among the tried and proven methods of capitalism for elements which might be combined into an adequate and practical formula for the attainment of an essential minimum of social security without sacrifice of the basic individual freedoms. It will be the necessary first step to explore the origins of capitalism, to trace the early stages through which the capitalist impulse has expressed itself and how it thus prepared the way for modern capitalism. It is only in the light of a coherent understanding of what capitalism has tried to do and how it has sought to do it that we can hope to judge, with the superior knowledge of hindsight,

wherein it has failed and wherein it has apparently succeeded.

The beginnings of capitalism, like most other historical beginnings of great movements, were neither critical nor, for that matter, self-conscious. Capitalism did not begin as a theory. It began as a congeries of seemingly unrelated mercantile practices in Venice, Genoa, the cities of the Hanseatic League and elsewhere during a period when the western world was firmly organized on the basis we now call feudal.

There is no agreement as to precisely when precapitalism emerged as capitalism. The earliest or "mercantilist" phase, which prevailed from about 1500 to 1800, was itself essentially a period of transition, during which the interstitial controls over the economy exercised by the feudal hierarchy were torn out, but not the ultimate control exercised by the king. The intellectual impetus behind this change is traceable to the Renaissance and the Reformation. Its political expression took the form of a struggle against the great landholding aristocracy from both above and below, in which the Crown and the rising *bourgeoisie* found themselves in an uneasy alliance of convenience. The economic foundation for it was the discovery of vast new continents beyond the seas by merchant traders whose activities were common but atypical phenomena of feudal society during the Middle Ages. The voyages of discovery, actually undertaken as trading ventures in the medieval pattern without any thought (in the beginning) that new lands would be found, were of decisive importance. Not only did they vastly enhance opportunities for overseas trading; of even greater significance were the opportunities for colonization they created at the very time that social upheavals in the European homelands made emigration seem desirable.

The experience of England is worth special consideration, because it witnessed the rise of capitalism in its most characteristic form and largely determined the social heritage of the United States, both economic and political. For more

than a century before the voyages of Columbus, the intermittent warfare characteristic of feudalism generally had intensified in England into a succession of struggles as costly as they were inconclusive. As long as the strong Plantagenet kings, who combined military prowess with a flair for overseas adventure, were able to lead the restive barons in wars of aggression against the French, some semblance of unity and of social stability at home could be preserved, despite the drain upon resources of man power and production. But after the dismal ending of the Hundred Years' War and the accession of the weak Henry VI, an internal, dynastic tug of war broke out. In these "Wars of the Roses," the "kingmaker" barons, marshaled behind the rival contenders of York and Lancaster, scorched the earth of England itself in pursuit of their incessant aspirations for power. In the eyes of the English peasantry and nascent *bourgeoisie* alike, the devastation of the new civil wars was a poor substitute for the hope, however illusory, of profit or of enhanced power and prestige across the Channel. Consequently there was a popular revulsion against a feudal order which no longer served an essential social purpose. This feeling prevailed at the very moment when fabulous tales of "Cathay" were partially confirmed by John Cabot. There was thus a conjunction of popular temper and of practical opportunity which proved irresistible to the new and clever monarchs of the Tudor line. They saw in it the perfect means of consolidating their own power against the exhausted barons, of stimulating economic recuperation and of giving a centralized guidance to a *national* destiny which the times seemed to demand.

The merchant traders and moneylenders of budding capitalism were only too happy to embark upon new overseas undertakings which gave real promise of profit. So also were many dispossessed villeins who had been burned out in the civil wars or thrown off the land as it began to be put to capitalist uses. So also were many natural adventurers whose latent individualism had been fanned to flame by the Renaissance. Thus the impulse to colonize the newly discovered

lands came to be added to the already well-established practices of trading, and thereby accelerated the downfall of the feudal economy, in two ways. Affirmatively, the new economic opportunities were wholly beyond the scope of historical feudalism, whose economy was based exclusively upon domestic agricultural production under a peculiar system of land tenure. Negatively, the feudal lords proved to be unable to adapt their order to take care of the new situation. The Crown stepped into the breach first and pre-empted control with the help of the new capitalists (including some resilient individuals who had been feudal lords).

What happened was simply this: the Crown began to grant special royal charters to *bourgeois* associations calling themselves "companies of gentlemen adventurers." The London Company, the Plymouth Company and the Hudson's Bay Company in North America, and the East India Company in India, are the best remembered examples. Cognate opportunities in the domestic sphere were by no means neglected. They afforded a ready means of further expanding the Crown's growing control over the economy as a whole and thereby undermining still more the position of the feudal hierarchy. Special charters were granted to court favorites or other influential persons for the pursuit of particular occupations at home. The holders of these "patents" issued licenses to capitalist entrepreneurs and collected "royalties" from them.

The motives prompting the sovereigns of the Tudor and Stuart dynasties to grant these charters ranged all the way from far-sighted statesmanship to petty greed or favoritism. But the charters all had two features in common, of special significance to the growth of capitalism: (1) the rights they granted were always exclusive, and therefore constituted monopolies; and (2) the charters were all granted individually, as a matter of grace, and could not be applied for by anybody as a matter of right.

Naturally, the prerogatives claimed by the Crown and particularly the monopolistic character of the charters eventu-

ally got very much in the way of the capitalists and would-be capitalists. The Civil War in England against Charles I was inspired as much by that monarch's economic practices as it was by his constitutional pretensions of "divine right." The American colonists came to this continent under and therefore subject to the limitations of the charters of the London Company and the Plymouth Company. But the legal status of their experiment did not prevent them from chafing at the many restrictions which resulted from the granting of monopolies to other adventures. There was, for example, the little matter of the West Indies trade, from which the colonists were excluded; and every school child remembers the tea monopoly and the action it provoked at Boston.

Thus even before the industrial revolution brought the advances in technology which made modern capitalism possible, rebellions and civil wars flared in the name of liberty against the attempted retention by the state of the right to channel the economic activities of the citizen. The issue was both economic and social or political in nature. The rationalizations covered all fields of thought and action. We ordinarily think of political theorists such as Rousseau and Jefferson as the leading ideologists of the day; but it was also the day of the economist Adam Smith, and his work in shaping the economic institutions of capitalism was even more influential. The American Revolution, the French Revolution and the industrial revolution combined to overthrow the political *and* economic power of the Crown, and to usher in the second or "industrial" phase of capitalism.

It is true that industrial capitalism was founded upon steam power and kept pace in its development with the achievements of science in all aspects of technology. Yet there is no predetermined connection between the progress of man's conquest of nature and any particular form of social organization. This observation is self-evident, but it is worth making because of two widespread but contradictory assumptions in current social thinking. One is that capitalism

brought modern technology into being and therefore is bound to last as long as the machine age itself endures. The other is that capitalism is unable to cope with the machine and is therefore doomed to yield place to an entirely different order which can cope with it.

Actually, modern technology was created by a long series of inventors and scientists whose economic and political thinking and actual social circumstances were as irrelevant to their experimental work as the color of their hair. Capitalism flourished for nearly three hundred years before Watt, Stephenson, Clinton and others harnessed steam power. Throughout that period the technology of production varied in no material degree from what it had been during the Middle Ages. And in our own time, most of the industrialization of Russia has been accomplished under the aegis of managerial society, and not under capitalism. The opposite assumption, that capitalism cannot cope with the machine, is refuted by the fact that it has coped with it successfully for a century—the century, moreover, of science's most startling and revolutionary innovations. If capitalism has lost its power to handle the machine, it is not because of anything inherent in the machine, and it has yet to be proved that it is because of anything inherent in capitalism.

Technology, then, is separate and distinct from social or*ganization. In the world of conflicting "isms" it is neutral.* Naturally, the technical possibilities existing at any time and place will be utilized by the society existing at the same time and place for whatever social purposes it happens to have. Social policies may be modified in the light of scientific advances, and the trend or course of scientific research and development may be influenced extensively by the prevailing social atmosphere. But this interaction must be regarded as fortuitous and opportunistic, not as something written in the stars, if fundamental errors of interpretation are to be avoided.

Industrial capitalism, therefore, is not characterized by the technological developments which occurred during its period

of dominance and which it exploited to its own ends. It is characterized rather by the consequences flowing from the victory of the capitalists over the Crown; from the triumph of the *laissez-faire* theory of unrestricted private initiative expressing itself in the free market, which was signalized by the abrogation of the practice of granting monopolistic charters to favored groups and individuals, and the substitution therefor of nonexclusive corporate charters freely applied for under general laws. The new charters were not so broad in scope, however, as the nearly unlimited corporate charters now so familiar to us.

In the early nineteenth century the privilege of incorporation, though conferred without discrimination upon mere application, was still regarded as a privilege. That is, the grant of corporate status was an expression of faith and confidence by the state in the incorporators for the conduct of a particular business enterprise described in precise language in the charter. It was therefore required that the directors and officers of every corporation or "limited company" (the early designation still persists in England) be selected from among its stockholders. The merging of one company with another was unheard of. No corporation possessed the power to acquire stock in another corporation. The prevailing pattern of business organization was precisely that described in Chapter IV before the rise of finance capitalism: the pattern which unites the distinct functions of the managers, the finance executives and the stockholders in the same small group of individuals; the pattern under which the capitalist owners were personally engaged in production and financial management, and to which the modern finance capitalist was unknown.

The immediate consequence of this institutional reform was demoralization of both labor and capital. The supplanting of the medieval guilds, employing apprentices and indentured servants, by individual capitalist craftsmen, employing journeymen, had already established the beginnings of a free labor market which greatly facilitated the introduc-

tion of the factory system. The superior efficiency of power-driven *machinery over hand tools* rapidly destroyed the technological basis of whole sectors of the economy and hence caused widespread unemployment. This circumstance the new entrepreneurs were quick to exploit, not necessarily from malevolence. Self-help to the point of ruthlessness appeared to them the only means available for waging the competitive warfare which sprang up under the new economic liberalism. The situation was further aggravated by financial panics resulting from the collapse of many of the new enterprises. These collapses were due in part to undercapitalization, in part to the impossible competitive situations created by overcrowding, and in part to the starvation wage scales made possible by the technological unemployment which weakened the consumers' markets. It seemed, for a time, that the new liberty would prove to be indistinguishable from anarchy. Rioting was frequent and often bloody.

The first essay in industrial capitalism thus speedily drove home the lesson that, certain interpreters of Adam Smith to the contrary notwithstanding, there can be no such thing as *unlimited private initiative or an absolutely free market.* The lesson was not at first acknowledged by the capitalists. They bitterly denounced the early "factory laws," the first experiment in social legislation, modern style, undertaken by the capitalist state. They similarly fought the later laws which, one by one, subjected to state regulation railroads, utilities, banks, insurance companies and other "businesses affected with the public interest." The capitalists were horrified at the early attempts of labor to organize in self-defense against capitalist exploitation. They tried every means from legislation to armed violence to throttle the labor movement in its infancy. There was no recognition of the fact that labor is itself an indispensable element in the capitalist equation; and especially none that it occurs twice: once as labor, and a second time as a major fraction of the great consuming public.

Little by little, however, the social necessities and realities

came to be accepted in principle, although the old resentments and prejudices flared anew in specific instances of impingement upon particular capitalist undertakings. For the capitalists gradually matured as experience within the framework of industrial capitalism widened and deepened. Science kept on working its wonders. New and still newer opportunities for profitable investment presented themselves. Many of the pioneers were wiped out, but their successors profited vicariously from the misfortunes of others and increased the general ability to distinguish between an investment and a speculation.

The upheavals of the rough-and-tumble decades prior to 1850 were succeeded by comparatively stable conditions. The new economic order was enabled to consolidate and expand its position and to ramify throughout sectors of the economy not previously affected. In England the development was almost continuous. In the United States it was interrupted and delayed by the Civil War, but the lost time was quickly made up after the restoration of the Union. In this country the decades from 1870 to 1900 witnessed almost unbroken economic progress in terms of a rising standard of living. From a peak in 1865 (the end of the Civil War) the index of wholesale prices declined continuously until 1897. While money wage rates remained almost constant during that period, real wages (wholesale commodity prices divided by weekly wage rates) rose proportionally to the decline in prices.[1] From the standpoint of the entrepreneur, however, the picture was not so attractive. The general decline in prices reflected vigorous competition as well as advances in technology and other improvements in efficiency. It was punctuated by two depressions, one sharp but brief in the early 1870's and the second, less severe but more protracted, in the 1890's. Business failures were numerous in both crises.

To businessmen generally, therefore, the blessings of economic expansion, promised by the capitalist theory as the

[1] *Income and Economic Progress*, p. 107 and chart. Washington: The Brookings Institution, 1935.

sure harvest of competition in a free market, seemed less immediate and compelling than the risk of personal extinction through the operation of the price mechanism. Hence the very same factors which have prompted economists to extol competition as a guiding principle of economic behavior have led many of the actual combatants on the firing line to eliminate, circumvent or otherwise protect themselves against competition by every means available. The full flowering of what might be described as the revolt of business against competition occurred later, during the finance phase of capitalism. It had its roots in the industrial phase, however, and their growth marks the transition from the one stage to the other.

The most obvious way to solve the practical problem of competition, at least to entrepreneurs imbued with the aggressive spirit, is to absorb one's competitors by means of mergers or consolidations after weakening them as far as possible through price or rate wars. This method, though simple and direct, obviously requires large financial resources. Perhaps for this reason it was first adopted in the economic sector in which large investments of capital first appeared and are required, namely, railroading. The early financial maneuverings of the "public be damned" school of American railroaders—Gould, Vanderbilt, Harriman, Stanford and their associates—are well remembered. The public reaction was prompt and strong. It led to the establishment in 1887 of the Interstate Commerce Commission, with jurisdiction not only over rates, tariffs and operating practices but also over proposed rail mergers, consolidations or combinations in any form. The reaction was, indeed, broader than the developments in railroading which first aroused it. It also brought about the first antitrust law (the federal Sherman Act) designed to inhibit any capital combinations having a tendency to promote monopolies or to restrain trade.

A second way of obviating the risks of competition—almost the opposite of the first in that it is defensive rather than offensive in temper—is for competitors to agree to cease com-

peting; that is to say, to enter into a contract dividing among themselves the common markets, awarding exclusive trading rights in each such division as against the other contracting parties, and binding all the parties to maintain price scales to be fixed from time to time by further agreement. These economic alliances or "cartels" originated in England as far back as the 1870's. They were viewed with favor by the governments of England and other European countries, notably Germany. The fact that cartels constituted collective monopolies was not considered objectionable when weighed against the seeming advantages of economic peace and stability which they offered. All like businesses of comparable size were welcomed into these alliances, irrespective of national origin. If the prices they charged were high, they were not constant, but on the contrary were adjusted from time to time to what the traffic could bear. Best of all the cartel operations were steady. They were not subject to the demoralization and possible destruction that might have ensued had British chemicals, say, done competitive battle with German chemicals, or Swedish cutlery with British and German, and so on. In the United States, however, in view of the prevailing antimonopoly attitude, public opinion and, until recently, public policy have been dead set against cartels.

A third aid against competition, partial rather than complete but common to Europe and America, which developed under industrial capitalism, was the industrial protective tariff. It seemed a logical corollary from the state's determined intervention in economic matters against the interests of the capitalists, in such instances as "factory laws" and the whole sphere of social and regulatory legislation, that the state should also intervene in support of domestic entrepreneurs against foreign competition. This it did, at first limiting its aid to tariff laws, but later granting subsidies and adopting other measures. Protective tariffs were not invented by the industrial capitalists. Indeed, their advent to economic power in England was responsible for the repeal of the "corn laws," a tariff structure designed in the mercantilist period

to protect domestic agriculture but which could not be retained in the early industrial phase because of the pressure upon the standard of living caused by widespread unemployment. It is broadly true, however, that the protection of industry through tariffs was an innovation of the industrial phase of capitalism. The monopolistic basis of foreign trade during the mercantilist phase and the virtual absence of such trade in feudal times made tariffs for protection unnecessary. Such import excises as were imposed were for revenue, not for protection.

It was inevitable that the same fear of competition, or desire for entrepreneurial security, which led to the attempted linking of railroads through consolidations in the United States, would seek to express itself similarly in lines of business other than railroads, utilities, banks, insurance companies, etc. regarded by the courts as so "affected with the public interest" as to be subject to state regulation for that reason. Ordinary mining, manufacturing and distributing enterprises were not "affected with the public interest"; the courts had explicitly so ruled. The impulse to combine such purely private enterprises as these first expressed itself in the form of agreements creating trusts of voting stock or marketing "pools." Both of these devices left intact the separate legal entities of the corporations involved. The combinations they effected were brought about, not by a merging of property interests, but by operating contracts. These were the devices at which the Sherman Act was directly aimed: whence the name, "antitrust."

Something, clearly, was needed to provide a detour around the Sherman Act. It was hoped that it might be found in the device of the holding company. It seemed reasonable to believe, in advance of a court test, that a corporation formed not to engage in any kind of business but solely to hold (own) the stocks of two or more other corporations themselves engaged in business, would not be regarded as violating the Sherman Act. First, however, it was necessary to procure from the courts (with or without express legislative sanction)

of the several states in which the largest number of important companies were incorporated (chiefly Maine and New Jersey at first, later Delaware), a liberalized interpretation of the general incorporation laws. Specifically, it was necessary to get a clear declaration, either that all corporations (of the state in question) inherently possessed, or that particular corporations specially organized for the purpose could assume, legal power to own the stock of other corporations.

This objective began to be achieved towards the close of the last century. Favorable views as to the stockholding powers of corporations (general or special, inherent or specifically claimed) were adopted in one state after another and also in England. The old "limited company" conception of industrial capitalism thus died. With the advent of the holding company, finance capitalism was born.

IX

The "Economy of High Wages and Low Prices"

AS IT turned out, something more than the holding company device was necessary in order to circumvent the Sherman Act. In the light of realism it is easy to see that a holding company is not, *per se,* except in the most technical conception of the law, anything more than a device, and therefore is powerless to confer an immunity upon combinations otherwise forbidden. It is similarly easy to see, having regard for the true merits of the case, that monopoly impends much more nearly when an oil company, for example, combines with three or four other oil companies than when the elements of a combination consist of various steel companies plus iron mining companies, railroads and steamship lines. Linking together like businesses is more obviously obnoxious to antimonopoly statutes than linking unlike but related businesses. The purpose of the latter, indeed, may not be primarily or even incidentally monopolistic; the purpose may be limited to a mere improvement of the competitive position of the dominant element in the combination. In any case, the question whether the Sherman Act has been violated will be a question of fact. An affirmative answer will be indicated much more readily where the combination is of like undertakings than where it is wholly or largely of unlike undertakings. Such was the effect of the decisions of the United States Supreme Court in the proceed-

ings brought under the Sherman Act against the original Standard Oil Company and against the United States Steel Corporation. The Standard Oil combine was ordered disbanded. The Steel combine was permitted to stand.]

In consequence of these extremely influential Supreme Court decisions, the tendency in the United States in the early years of the twentieth century was towards the creation of "vertical trusts" of the U.S. Steel type rather than of horizontal combinations of like companies.] Of course some like companies are included in most modern industrial-financial complexes, but not to such an extent as to make monopoly or the promotion of monopoly self-evident. If monopolistic results ensue, as by two or more competing complexes' quietly adopting one another's price lists and wage scales, they may just as easily come about through imitation as from prearranged agreement.

The impulse towards cartelization, of which such agreements would be evidence, has been of slow development in the United States and necessarily so, since cartels are contractual associations (not organic combinations) of *like* businesses. Fear of the antitrust laws (the Sherman Act was reinforced in 1914 by the Clayton Act and by later supplementary legislation) has very largely confined American employment of cartel schemes to the sphere of international trade. Even in that sphere cartelization did not become prominent until the 1920's, and then chiefly in the sectors of industry least affected by mass production techniques and, possibly for that reason, least inclined to compete (e.g., pharmaceuticals, chemicals, plastics, optical equipment, special metals, etc.). The blight spread in the 1930's, however. Cartel-favoring governments began to deny their markets to foreign competing goods. Only as American business came to realize that to an increasing extent foreign trade in cartel-dominated sectors was possible only on cartel terms, it began to accept those terms.

It would be premature to suggest that public opinion with respect to monopolies, or cartels, has changed to a substantial

degree. It is a fact, however, that opinion within government circles has shown signs of modification as a result of the apparent necessities of the modern international trade situation. While the Department of Justice has always been resolutely opposed to cartels and apparently still is,[1] the State Department has recently indicated that they may be justifiable under compelling circumstances, provided that the agreements creating them are submitted to government scrutiny. The Department of Agriculture has similarly signified qualified approval within its own sphere, on the ground that cartel agreements may afford the best means of handling in international commerce the peacetime problem of agricultural surpluses. Opinion has not, as yet, crystallized within the government as a whole. It is noteworthy, moreover, that such support for cartels as does exist has been largely influenced not only by the depression-born restrictive trade practices of capitalist states, but also by the unqualifiedly monopolistic and autarchic devices of the managerial states. Of these the barter methods of Fascist Italy and Nazi Germany were, and of Soviet Russia still are, outstanding examples.

Such are the two chief patterns of business organization which, though originating in the latter part of the industrial phase of capitalism, have reached their full development under finance capitalism and have served to differentiate finance capitalism from the preceding phase. An additional development is that the agglomerations of unlike but related producing units previously referred to as "vertical trusts" have themselves tended to align their policies in recent decades in the domestic sphere. This is not accomplished by agreement, as in the case of participation in cartels in international trade, but through the very simple device of "interlocking directorates." No super holding company or other possibly vulnerable legal arrangement is required. Representatives of the ultimate financial interests concerned merely sit as members of the boards of directors of two or more key

[1] See *Cartels*, by Wendell Berge. Washington: Public Affairs Press, 1944.

holding companies appearing at the apexes of distinct corporate pyramids. By thus maintaining liaison horizontally as well as vertically, they are able to weld the several "trusts" into a financial-industrial empire.

Even among the members of the several industries who are not legally bound together, directly or indirectly, through common ownership of controlling stock interests, there has been, since 1920, a somewhat similar parallelism in outlook and policy due to the efforts of "trade associations" or "institutes." These organizations exert no control over either prices or production, but they bring about spontaneous adherence to a sort of industrial "party line" by disseminating to the membership findings, conclusions and recommendations of common interest which are commonly accepted.

What are the operating capabilities in a capitalist economy, supposedly devoted to the ideal of expansion through competition in free markets, created by these modern patterns of business organization? If we can first assess the potentialities for expanding production inherent in modern business relations, we will then be in a position to gauge the extent to which the potentialities have been, or are likely to be, realized.

Perhaps easiest to assess because of its relatively simple nature is the cartel. It would appear at first blush that a cartel, like any other unregulated monopoly, is capable of stimulating demand by reducing its prices, but is unwilling to do so because it is under no inducement or compulsion. It is true that compulsion is lacking but so also, to some extent, is the ability. In the case of the extractive or primary producing cartels (tin, rubber, diamonds, rare alloy metals, etc.) there is at best little opportunity to take the initiative in stimulating demand, since the market in most instances consists of processors or manufacturers rather than ultimate consumers. Hence cartels in these fields are compelled by the nature of their businesses to follow upward trends instead of leading them. This observation does not apply to cartels which do cater directly to the ultimate consumer, including

many in Europe engaged in general manufacturing. These, however, encounter a different limitation which is common to all cartels: the necessity of realizing an adequate profit not only for the most efficient producers but also for the highest-cost producers. It is impossible to reward adequately high-cost producers without inordinately enriching low-cost producers; at least if a single price is to be quoted for all producers in all markets. A uniform single price is essential to the integrity of the markets as allocated by the cartel. The public is paying to carry along broken reeds which competition would long since have eliminated.

"Vertical trusts" are to be distinguished from cartels, since the response to the risks of competition which they represent has been in the direction of improving the competitive position rather than of eliminating competition absolutely by conquest or agreement. Monopoly by inadvertence has not been achieved, for despite the great size attained and huge financial resources pooled by many corporate-aggregates, there has been an accompanying sacrifice of refined efficiencies in operation.

The gain in financial resources which results from combinations of this character is not limited to a merging of capital assets. It is also expressed in the assertion of unified control over the operating profits of the constituent units. The intermediate profits may be eliminated as such, in which case they will be reflected in lowered material costs to the final manufacturer. If preserved, they ultimately pass to the parent company in the form of dividends. Also, somewhat lower contingency reserves may be carried safely when the units in the sequence are combined than when they are independent. Such operating savings are in fact realized. They are approximately offset, however, chiefly by two new factors introduced by the mere size and complexity of the vertical organizations. The first is the much more elaborate and hence costly overhead required when varigated undertakings are put together: e.g., in bookkeeping, accounting, etc. as well as in administration. The second factor is the natural lowering of

human efficiency whenever individuals are brought together in large numbers to perform minute parts of huge tasks. There is little difference, and that mostly one of degree, between a private capitalist bureaucracy and a government bureaucracy.

This is not to say that vertical trusts have sustained a net competitive loss in their struggles with smaller and more efficient organizations. Were this so, the trend towards pyramiding would long since have been reversed. In fact it has kept right on progressing. If anything, the supercorporations and corporate-aggregates have registered a slight net gain. Gain is not to be inferred merely from the superior attractiveness for interests already large of security through size as against adventure based on initiative and efficiency. Actual gain seems to be indicated by the failure of many little businesses in recent years and by the absorption of others. That the gain is slight rather than large, however, is sufficiently attested by the fact that still other small businesses go on competing successfully with the giants year after year.

Whether or to what extent the corporate-aggregate uses its slight advantage for the purpose of lowering the prices of its output we shall consider later. At the moment the narrow point we are interested in is that the elimination of the profit markup from the original and intermediate stages of extraction and processing or fabrication does enlarge the room for maneuvering enjoyed by the manufacturer of the finished product.

This advantage is by no means confined to enterprises engaged in manufacturing. It is equally open to large-scale distributors and to consumers, large and small, and many have availed themselves of it. Every housewife knows that grocery "chains" have gone in extensively for the processing of many of the foods they sell. Mail-order retailers and even some of the largest department stores now manufacture much of their merchandise. At the bottom end of the economic chain one encounters ultimate consumers owning stores on a cooperative basis. More frequently in this country, especially in rural

areas, consumers are banded together in buyers' cooperative associations through which, by pooling their purchasing power, they command wholesale prices for merchandise required by all but which no individual can buy on his own account except at retail prices. (To be contrasted with buyers' cooperatives are the much larger and more significant producers' cooperatives, which, particularly in the marketing of certain fruits and dairy products, after a twelvefold growth in ten years, are approaching a dominant position in their lines of business.) Last but far from least, mention must be made of the insurance business. In the life field particularly, the huge "mutual" companies, wholly owned by their policy and contract holders, have been for many years unquestionably dominant.

Thus the capitalist revolt against competition has been carried to its logical conclusion of eliminating competition altogether only in the cartel field. The vertical trust movement, much more prominent in the United States in the formative days of finance capitalism, has tended to dominate competition rather than to eliminate it entirely. The elimination of markups by intermediate manufacturers and middlemen, which results from unified control over sundry steps in any economic sequence, has probably worked some net decrease of the over-all costs of production despite the offsetting costliness of huge size. To the extent that savings have been realized, a reduction of prices (and hence a stimulation of demand) has been rendered possible. A reduction of *net* prices has been compelled in certain sectors by the banding together of consumers in such diverse enterprises as mutual insurance companies and buyers' cooperative associations. Have prices similarly been reduced by combinations controlled by manufacturers or distributors? That is the question we must now explore in the light, however, of a twentieth century business philosophy not yet mentioned, which seemed for a time to promise an economic millennium, known as the "economy of high wages and low prices."

Although the progressive reduction of prices is one of the chief ways in which economic competition expresses itself, and competition is central in the theory of capitalism, we have seen that the nerve-racking experiences with competition of the early industrial capitalists soon led them to seek ways of escape, or at least of increasing entrepreneurial security. Increased size was one logical answer, and became the favorite one in this country. The choice (if it may be regarded as a deliberate choice) was a felicitous one because it was also responsive, and completely so, to the new technological demands of mass production, which began to assert themselves at the turn of the twentieth century. The concentrations of capital in the supercorporations and corporate-aggregates characteristic of finance capitalism thus happened to coincide, chronologically, with the ramifying possibilities and actualities of mass production. It would be interesting but unnecessary to inquire which development was responsible for the other. They were in fact virtually concurrent. America's immediate seizure (and retention ever since) of the leading position in an industrial age of mass production was aided by the response of business to the Sherman Act and its court interpretations. The trend in financial circles and the trend in production circles coincided exactly.

Mass production naturally called attention to the necessity of equal mass consumption. Hence it presented labor in a new light, i.e., as consumers, and brought about a gradual recognition that consumer demand is not a function of absolute buying power alone, but of buying power influenced by *prices*. In this atmosphere the timely doctrine that wages should be progressively raised and prices should be progressively lowered was simultaneously announced and put into practice by Henry Ford. Notwithstanding its appropriateness, Mr. Ford's thesis was both startling and displeasing to most big businessmen. Its wage-raising feature was the reverse of orthodox capitalist thinking and practice. Its price-lowering feature, though wholly consonant with capitalist theory, implies vigorous competition, and competition had become un-

popular. Mr. Ford himself was suspect, for in an age of capital combinations he had resolutely refused to combine. His hatred of "Wall Street," his refusal to list and manipulate the stock of his company, and his wage-price pronouncement all made him appear more like a "little business" progressive than a "big business" conservative. This may account both for his then popularity with the public and for the refusal of big business to follow his lead until compelled to do so by competition, which thus threatened to return.

There has in fact been a partial revival of competition, though far from intense and far from uniform throughout the industrial sectors of the economy. [Competition apart, there has been a general realization that the old capitalist ideal of a maximum profit per unit of production has yielded, under the compulsion of the new technologies, to the new conception of volume profit. Every up-to-date entrepreneur nowadays is anxious to realize a maximum volume profit, and is willing to pay a "high" wage and sell at a "low" price in order to do so.]

But how high is a "high" wage and how low is a "low" price? The principle is easy to grasp, but the application of the principle is inherently difficult (except through competition) because of the uncertainties involved. Moreover, most entrepreneurs have resolved doubts or ambiguities encountered in the process of calculation in favor of a safety factor which tends to accumulate in their hands profits deemed to be excessive by organized labor, and damaging to future consumer demand. Reasonable doubt exists, therefore, not that maximum volume profits are desirable, but that they are attainable, in view of the modern tendency to stabilize prices, which is both the expression and the measure of the prevailing reluctance to compete.

The following figures convey some idea of the price trends prior to 1900:

> The price of pig iron declined between 1870 and 1900 from $33.23 to $19.98 a ton; the price of open hearth steel rails decreased from $106.79 a ton in 1870 to $67.52 in 1880

> and $32.29 in 1900. . . . Standard prints declined in price from 12.41 cents per yard in 1870 to 5 cents in 1900, and standard sheetings fell during the same period from 14.58 cents per yard to 7 cents. This reduction in selling prices was not accomplished by means of lower money wages, for wage rates showed only a very slight decline over the period.[1]

By way of contrast, the following table indicates how retail prices leveled off during the period 1922-29:

RETAIL PRICES OF MANUFACTURED GOODS, 1922-29.[2]

(1910-14 = 100)

Year	For Consumption Goods	For Production Goods	Total
1922	156	139	149
1923	160	141	152
1924	159	143	152
1925	164	147	157
1926	162	146	155
1927	159	145	153
1928	160	148	155
1929	158	147	153

The general comment of the Institute of Economics of the Brookings Institution upon the foregoing figures, starting with the period 1870-1900, is as follows:

> Although this period witnessed the beginning of the consolidation movement, competition prevailed in a much wider range of activities than has been the case in recent years. It is not to be inferred, however, that competition has entirely disappeared in recent times. In certain branches of industry, particularly in the newer lines, the policy of reducing prices as productive efficiency increases is still pursued. But it is

[1] *Income and Economic Progress, ubi supra*, pp. 139-140.

[2] "The Agricultural Situation," Bulletin of the U.S. Department of Agriculture, July, 1935, p. 21, reproduced in *Income and Economic Progress*, p. 132.

> not to be denied that, as industries reach a more mature state of development and as production becomes concentrated in larger units a policy of maintaining prices with a view to stabilizing conditions and safeguarding immediate profits comes increasingly to prevail.
>
> As the years have passed the necessity of progressive price reductions as a means of expanding purchasing power and markets appears to have been forgotten, alike by business managers and economic statesmen. The conclusion is inescapable, however, that in so far as the effort to stabilize prices is effective the broad distribution of income upon which continuous economic expansion depends is circumvented.[1]

[Such, then, have been the consequences in the price field of the centripetal force which fear of competition has exerted upon so-called venture capital.] Given the basic premise of aversion to competition, which the early industrial experience in fact induced, and full latitude to seek security in any practicable way, the present situation was perhaps inevitable. Safety through concentration and combination seems obvious, and in proportion as it is achieved diminishes the chance that competition will ever again be resumed voluntarily. For, it can be argued, all-out competition between the great corporate-aggregates of this century would be disastrous, not only to one or more or all of the contestants themselves, but also to the whole fabric of society which is supported by its own economic dispositions. Such an argument is being made in one form or another and has registered considerable success, particularly in Europe. [That, if accepted, it leads straight out of the capitalist framework and into the managerial framework of social organization is not apt to be appreciated by finance capitalists until after the event. Yet that was the experience of the German financial and industrial leaders after 1933.]

[Not all capitalists have yielded to the general urge to combine. In addition to Henry Ford, an important minority of industry, commerce and finance has remained independent,

[1] *Income and Economic Progress*, p. 140

seeking through initiative and efficiency to equalize their competitive positions with those of the powerful but relatively inefficient combines. Competitive battles to the death cannot be forced by little business upon big business. In the price field little business has been unable to do much more than meet whatever competition has been initiated by big business. But in the wage field little business has assumed a position of leadership, possibly because of its necessary reliance upon efficiency, which can be promoted only by enlightened labor policies, including the adoption of liberal wage rates and an intelligent formula for keeping them adjusted to changing conditions. The most constructive device used for this purpose has been profit-sharing.

Profit-sharing already has a considerable history. The practice of distributing bonuses at the end of a profitable year or at Christmas time, from which profit-sharing was derived, is far older and still quite prevalent, despite the superior economic and psychological advantages of profit-sharing. Both customs have as their primary purpose the fostering of good labor relations. Both attain this objective with varying degrees of success, depending on the nature and liberality of each particular plan. In the main, individual workers and union leadership alike prefer profit-sharing, because it establishes participation in profits as a normal and legitimate feature of the contract of employment, and to the extent provided by the specific plan the participation is, therefore, complete.

The bonus does not necessarily reflect the degree of the employer's prosperity. It may not be the same to all employees, but it tends to remain constant from year to year as far as any particular employee is concerned. Moreover, the non-contractual bonus is a gratuity which the employer is legally free to withhold. Hence its payment, as a matter of grace and not of compulsion, has a paternalistic flavor resented by employees, and is less efficacious in building morale than the contractual sharing of profits, which makes the par-

ticipating worker feel more like the silent partner he in fact is than like the servant the common law still calls him.

Profit-sharing plans vary considerably in detail, both in respect to the extent of the participation (commonly five to fifteen per cent), and in respect to its character. Some are hedged about with paternalistic devices, in themselves often laudable except for the paternalistic compulsion, such as the required adherence to a company retirement plan, or to a group life insurance plan. Others have ingenious little arrangements for accumulating the earnings and placing them at interest until a stated time or times, coupled with a forfeiture provision of greater or lesser scope effective if the employee should quit. In the main, however, the plans are beneficent. The authors of the more straightforward of them have reaped a rich harvest of employee stability, efficiency and contentment, which has enabled the employer to withstand the test of depression, and has induced the employees to resist the blandishments of outside organizers.

Profit-sharing, though encountered most frequently among little business organizations, is by no means confined to them. The idea has long since spread to big business, where its establishment has been stimulated to some degree by a desire to head off labor demands anticipated to be excessive. It may be assumed that the further and more rapid spreading of the device of profit-sharing has been inhibited in part by the slowness of some capitalists to perceive its merit in time to forestall union demands for increases in basic wage scales, and in part to lack of statesmanship on the part of organized labor itself in fighting for basic increases instead of for the much sounder, because more flexible and more realistic, principle of participation in earnings.

Actual experience has proved that, on the whole, profit-sharing is a great step forward not only in pacifying labor relations but also in the search for a practical answer to the question of how high a "high" wage should be for the best interests of capital, labor and the consuming public. Nevertheless, some of the most forward-looking of the successful

small industrial and commercial corporations of the country have reached the conclusion that profit-sharing, though undoubtedly constructive, does not go far enough towards achieving an ideal equilibrium in the modern economy. They reason that profit-sharing labor is still labor, and that while it is largely appeased by being accorded the right to direct participation in earnings, it is still exposed to the temptation of trying to reduce to possession in the form of weekly wages what may elude capture in the form of profits.

Partly for this reason and partly from larger considerations of the fitness of *all* corporation personnel to share in the control of its operations, these companies have moved in the direction of vesting their voting stock in their own personnel. Some have merely set aside blocks of common stock and earmarked them for sale to their employees on favorable terms, such as book value, pursuant to a contract which (1) enables the employee to pay part of the purchase price out of his share of the corporate profits (if a profit-sharing plan has been adopted) plus dividends declared on the stock, and (2) contains a recapture provision enabling the corporation to buy back the stock at its then book value upon the death or retirement of the employee. Other companies have adopted essentially the same plan but have carried it to the logical extreme, earmarking the entire voting stock for ownership by the employees.

From the standpoint of employee-ownership there is no place for a distinction between individual employees based on the character of their employment, and none is ordinarily made. The corporation's president and its office boys are alike eligible, although not to the same extent. Naturally, the top executives of a corporation so organized will own more of its stock than all the rest of the employees put together, and this is not entirely due to the disparity in the pre-emptive rights allotted or in the resources of the individuals concerned. Some companies upon first trying the experiment have been disappointed in the apathetic response of the ordinary employees, who in at least one instance openly expressed

a preference for profit-sharing in the form of cash rather than in stock. This, however, is largely a problem of education, and it has moved gradually towards a solution with the passage of time.

The rationale of employee-ownership from the standpoint of the wage problem is self-evident. Where the entire equity of a company is owned by those who work for it, the ownership interest and the labor interest coalesce. The question of how the gross income (after the payment of other charges) shall be allocated as between the salary-wage account and the profit account loses its character as an inter-class dispute. It persists, if at all, only as a question of the proportions in which the various jobs in the concern shall divide the annual revenue and the right to purchase the voting stock. Such questions are not to be brushed aside as negligible, but they are questions arising between individuals as such and not between members of rival social classes.

From the standpoint of the problems of management, however, the expedient of employee-ownership may require some additional clarification. The proponents of the practice do not claim that labor is or should be identical with management or with ownership *per se*. In their view, the function of labor still remains analytically distinct from the function of management, which is the attribute, immediate or delegated, of ownership. But there is no reason, they say, why the *persons* who exercise these several functions should not be as nearly identical as circumstances will permit. Obviously, the sundry operations which, in the aggregate, make up the total activity of an enterprise are more intimately understood by the personnel who perform them, respectively, than they are by anybody else. The practical experience of large employers is replete with useful suggestions emanating from the ranks which the top executives have been very glad to adopt. "Management," after all, is not localized at the top. Like the echelons of a military command, it is delegated all down the line. Even the most junior foreman participates in its function. To transform the silent partner into a general partner

by conferring upon him the stockholding privilege does no violence to operating realities. It does violence, if at all, only to prejudice.

Such, then, in the briefest outline, are the principal features of the capitalist economy in the order of their emergence. Until approximately the First World War, versatility and ingenuity predominated, in an atmosphere of lively competition. Throughout the same period, despite upheavals and depressions, capitalism discharged essential social responsibilities with fair continuity and increasing amplitude. Since the First World War, even during the halycon 1920's, the rate of expansion has been slowed. The general deceleration has been roughly proportional to the growth of capital combines and of their tendency to freeze the economy in its tracks under the guise of stabilizing conditions. Then came the depression with its persuasive indications that no recovery within the established framework of finance capitalism would prove to be possible, except for a brief revival in response to fleeting opportunities following the Second World War.

Yet the ingenuity, the flair for improvisation characteristic of early capitalism, has not disappeared. It emerges anew even in the stifling atmosphere of finance capitalism, in such devices as profit-sharing, employee-ownership and consumer-cooperation. Do not these subdominant answers to limited problems have a potential bearing upon the general problems created by the dominant elements in the modern economy? This is the question we must now explore.]

X

The Business Cycle

AN INQUIRY into the breakdown of finance capitalism in motion naturally begins with a review of the chief symptoms. For convenience, they are abstracted here, in the order in which they were discussed in Chapter II:

1. Mass unemployment of man power.
2. Recurring business cycles, whose recovery peaks established an ascending graph until 1930, and thereafter a descending graph.
3. A national debt now approaching unmanageable size.
4. Shrinking opportunities for free monetary exchange transactions in connection with foreign trade.
5. A permanent agricultural depression.
6. Increasing unemployment of investment funds.
7. Loss of initiative in exploiting opportunities in backward or undeveloped regions.
8. Inability to utilize to the full new technological resources.
9. Loss in popular appeal of portions of the capitalist ideologies.

If Items 1 and 2 were transposed, we would have at the top of the list a causal factor largely determining some of the following eight, and influencing the rest.

Clearly the downswing of the recurring business cycle is responsible for the mass proportions of the unemployment problem.

Although the most recent and by far the largest additions to the national debt were due to the war, substantial in-

creases in peacetime are normally and, in the 1930's, were in fact attributable to the cost of unemployment relief.

The cutting down of free international monetary exchange transactions results directly from political decisions of the states involved, but these decisions in turn are motivated by the depression-born scarcity of foreign exchange (except in states deliberately pursuing a policy of economic autarchy in preparation for war).

The permanent agricultural depression, though some features may require special treatment under any circumstances, is very largely due to the variable standard of living which is the product of business cycle gyrations.

Idle investment funds, like idle man power, reflect the post-crisis economic stagnation.

A decline in capitalist economic imperialism may be due to political instability or social unrest in the undeveloped regions; but in so far as it is due to loss of confidence by would-be investors, the loss of confidence is itself inspired by depression. Very often the instability and unrest in the colonial or hinterland region are themselves traceable to economic origins, including unemployment following a crisis.

Inability to utilize fully new technological resources is always caused, directly or indirectly, by fear of increasing "technological unemployment," and thereby precipitating a new depression or increasing the scope of an existing one.

Loss of ideological force is a function of the growing awareness that finance capitalism has ceased to work with minimum essential effectiveness for the good of the community. To the extent that recurring depressions are the cause of the one, they are also the cause of the other.

It is unnecessary to go to the extreme length of hypothesizing the business cycle as the sole cause of the breakdown of finance capitalism, in order to justify a major preoccupation with that problem. All economists agree, and every reflective person knows of his own experience, that the recurrence of depressions is so large a source of our economic difficulties

that, if the business cycle as a whole could be leveled or minimized, solution of the remaining problems would be relatively simple. It is crucially important to observe at the outset, however, that the objective of moderating the business cycle can be attained, if at all, only by empirical means, not through a scientific investigation into the prime causes of upswings and downswings.

Economic science has not yet developed tools capable of identifying or measuring *all* of the diverse expressions of the motives, purposes, tastes and prejudices of millions of uncoerced individuals, which are the ultimate sources of all trends within the capitalist economy. Even if the causes of a particular boom or of a particular depression could be isolated with reasonable accuracy and remedial action taken, there is no assurance that the causes of the next general movement up or down would be the same, or sufficiently similar to be parried by the measures previously adopted. The requirement is not to lock barn doors after individual horses have been stolen. The requirement is to keep the horses securely in the barn. This presents a problem not of the identification and apprehension of thieves, but of inhibiting thievery.

The problem thus restated remains as formidable as it was before. But I believe that the restatement is helpful in that it marks out the area within which a profitable attack upon the problem can be made. That area is between the plotted graphs for production and consumption as they creep along the time scale. Ideally, there should be no interval between them; they should coincide exactly. The extent to which they fail to coincide is the measure of disparity between supply and demand. This disparity, when great enough, causes the production curve to plunge sharply in pursuit of the consumption curve, whose falling away is accelerated by the pursuit. Such is the graphic representation of the phenomenon we call depression. The behavior pattern it discloses constitutes most of our knowledge of the problem.

The only constructive inference we can draw, therefore, is

that the problem must be treated as it stands, as a whole, upon a clinical basis in terms of the correlations between supply and demand we know exist, to the end that the two curves may seek each other continuously and overcome their historic tendency to fly apart periodically. Such an approach disregards refined questions of causation; but in the present state of knowledge it is the only approach practicable. Some vicarious comfort may be derived from the thought that in the physical sciences highly lucrative experimentation has often preceded the attainment of exact knowledge. Electricity was made the servant of man long before its nature was understood. This was solely the result of controlled experiments on the basis of observed behavior. In the economic field laboratory experiments are out of the question, but behavior observations are plentiful, and *clinical* experiments have been conducted frequently by business itself. The history of capitalism is largely the history of just such experimentation.

A very considerable part of the experimentation with business organizations and methods since the early days of industrial capitalism has revolved around the problem of competition, which remains as central today in the eyes of all entrepreneurs as it was in the beginning. Attempts to solve the problem of competition, however, have a perceptible bearing upon the problem of the business cycle. For one way of describing the state of the business cycle at any given moment is to say that it is the mathematical sum of the competitive situations then existing within the economy as a whole. If every producing unit, during a particular period of operations, succeeded in marketing its entire output at the prices it had quoted, the result for each would be complete victory in the competitive struggle. The result for the economy as a whole would be a perfect balancing of supply and demand during the period. On the other hand, competitive failure for a particular producing unit during a particular period is indistinguishable, in the effects upon it, from a general depression. If a large enough proportion of all producers

during the same period share its experience, the over-all result will be a general depression, whose statistics will constitute a composite statement of competitive losses only partially offset by competitive gains. Necessarily involved in this concept is the assumption that goods tend to compete with other goods of like price, and with goods of unlike price (within reasonable limits) where an unusual bargain appears to be involved. The assumption is justified, both by actual experience in the market and by the well-known fact of human nature, that within a single individual desires compete with one another for satisfaction at the same time.

It follows that any continuously successful solution of an individual competitive problem will tend to make an affirmative contribution to the objective of leveling the business cycle as a whole.

This statement may appear novel, even startling, and open to challenge on a number of grounds. It may be objected (1) that cartels and vertical trusts are admirable permanent solutions of the individual competitive problem, yet inadequate as preventives of depression; or (2) that such devices as profit-sharing and employee-ownership, though helpful in the field of labor relations, are irrelevant to the problem of competition and ineffective in expanding consumer markets; or (3) that the growing tendency towards integration, as expressed in the mutualizing of the insurance business and in the spread of cooperatives, if viewed as successful in strengthening the individual competitive position, has had no greater effect in strengthening the economy as a whole than has the expression of the same tendency in the creation of cartels and vertical trusts. Other possible criticisms can be anticipated, but the foregoing should suffice to enable a clarification of the proposition to which they are directed.

Let us consider first the objections first and last listed, in so far as they point out that cartels, vertical trusts, mutual insurance companies and buyers' cooperatives all express in different ways the prevailing tendency towards the integration of economic factors. The tendency towards integration

may be admitted but the differences in consequences must be emphasized. Mutual insurance companies and buyers' cooperatives represent the pooling of consumer demands in limited sectors, with the object of attaining needed commodities at lower prices than would otherwise have to be paid. The pooling of consumer buying power can never be harmful or other than beneficent in its long-range effects, because the savings realized are available for other purchases and thus add strength to the consumer demand for other commodities. It is a vindication of the economic philosophy of low prices which is generally agreed to be sound.

Cartels and vertical trusts, on the other hand, are combinations occurring much higher up in the chain of economic transactions extending from original extraction to ultimate consumption. Cartels, being monopolistic in design, make for high prices, not low prices, and should be contrary to public economic policy for that reason alone. Vertical trusts, while not openly and avowedly monopolistic, and though achieving for themselves the same economic advantage of lowered costs which the members of mutual insurance companies and buyers' cooperatives enjoy, are not ultimate consumers; they are manufacturers or distributors, serving consumer needs in their own interest. Whether or not they pass along to the consumer in the form of lower prices on their finished products or merchandise some or all of the cost savings that may survive the special expenses of inefficiency incident to their own great size, will depend, therefore, upon whether they choose to do so or feel safe in doing so. As we have already observed from the figures quoted in Chapter IX and will hereafter see in illustrative detail, their devotion to the economy of low prices usually falls short of being wholehearted, or else their skill in applying the principle is disappointing.

That part of the first objection which asserts that cartels and vertical trusts have achieved success in solving the individual competitive problem is wholly wrong as to cartels. It tends to be wrong also as to vertical trusts in so far as the latter tend towards a monopoly position. The elimination of

competition can never be viewed as a "continuously successful solution" of the competitive problem. Elimination of other economic problems within the framework of capitalism, such as the proportions in which the fruits of production shall be distributed as between capital, labor and consumer, would be all to the good. But elimination of competition through monopoly destroys the framework of capitalism itself and leads directly to state control, i.e., managerialism. Even the U.S. State Department's qualified approval of the cartel idea substantiates this proposition, in view of the proviso that cartel agreements be submitted to government scrutiny.

Profit-sharing and employee-ownership, though not directly related to the problem of individual competition, indirectly contribute to a solution through improved efficiency. The slashing of overhead costs, increases in production per man hour, and other economies attributable to a sense of solidarity between capital and labor (to say nothing of the elimination of costly strikes) are fundamental to the success of many small businesses in competition with big business. Profit-sharing and employee-ownership tend to strengthen the consumer markets. They put more money in the hands of certain members of the class which as a whole accounts for a major fraction of total consumer demand. Employee-ownership goes farther. Like the practice of mutualization in the insurance field, it vests ownership of the particular enterprise where it will yield the largest social benefit: maximum efficiency in the case of an industrial or commercial concern, minimum costs to the consumer in the case of insurance.

Finally, comment is called for upon the suggestion that neither profit-sharing, employee-ownership, mutualization nor the cooperative movement, separately or together, have made any more headway towards leveling the business cycle than have combinations of the cartel and vertical trust types. This raises the all-important question of dominance within the economy.

What we have been considering in connection with the related problems of competition and the business cycle are sun-

dry devices and techniques which may be viewed as varying expressions of an impulse towards the integration of distinct units, functions or classes within the economic process. We have observed that substantially different economic consequences may be expected, in terms of business cycle behavior, depending upon the particular types of units, or the particular functions or classes, which become integrated. Specifically, the union of like or unlike enterprises is harmful to the extent that it tends towards monopoly or "stabilization." The union of the capital and labor interests is beneficent in that it promotes efficiency and, together with consumer movements, strengthens or preserves consumer buying power.

We must now consider a further difference in the economic consequences of these various forms of integration: the difference in the opportunity open to any particular philosophy of integration of permeating the economy as a whole, so as to give it its distinguishing characteristics, when two or more such philosophies are operating at the same time and, it may be, competing for allegiance. The question is not one of abstract speculation, but of the highest practical importance. Obviously, if one such philosophy, because of its very nature, tends to centralize control over larger and larger sectors of the economy whereas others have no such tendency at all or only within a limited sector, then the first philosophy is going to achieve dominance sooner or later, quite irrespective of the relative merits of the several ideas in theory and in practice.

Theoretically, the impulse which brings consumers together in mutual insurance companies or buyers' cooperatives might ramify upwards and sideways into other economic sectors. There is nothing to prevent buyers' cooperatives from forming a manufacturing cooperative to make the goods they distribute, or to prevent manufacturing cooperatives (or their members) from forming extractive cooperatives to produce basic raw materials. The resulting pyramid would resemble a finance-capitalist vertical trust controlled, however, from the bottom instead of from the top. Such structures have

in fact been put together, notably in Sweden, where the cooperative movement is more mature than it is elsewhere except, perhaps, in Denmark. The possible competitive strength of a manufacturing cooperative as against a conventional aggregation of finance capital is well illustrated by the fact that a Swedish cooperative manufacturing electric light bulbs once succeeded in breaking an international cartel in that line. Another undertook the fabrication of rubber shoes and galoshes, breaking a near monopoly in weatherproof footwear.

Despite such examples of success, there are factors which tend to limit the scope of consumer movements, and to inhibit their proliferation into economic sectors other than their own. From the standpoint of efficiency, a cooperative vertical trust is at least as vulnerable as a conventional one of comparable size would be. The chances are that it would be more vulnerable. A group of miscellaneous consumers does not have any specialized knowledge of the variegated undertakings it would be sponsoring. Its position would be substantially similar to that of the stockholders in an ordinary corporation, and they have in most cases long since ceased to exercise any real control. Furthermore, the ownership by consumers of general mercantile and industrial enterprises tends to limit their market to the cooperators themselves. For only the latter divide the net earnings, and the prices at which the merchandise is retailed are not usually low enough to attract non-member customers. An entire economy organized along cooperative lines would be divided vertically into water-tight compartments based on the consumer-cooperators. While it might be very stable, it would probably lack both efficiency and initiative. For with a market largely predetermined and financially committed in advance, the ordinary incentives provided by competition would be lacking. The situation would be saved from the evils of quasi-monopoly only by the fact that the consumers, being the ultimate owners, could not be exploited on a grand scale; only on the milder scale open to listless management and occasional mismanagement.

The proper economic class to possess the ownership interest in the instruments of production is made up of all those who, in their own persons, are actually engaged in producing. This proposition is amply illustrated within the cooperative movement itself. Producers' cooperatives have gained immensely in strength during the past decade, not only in contrast to buyers cooperatives (other than mutual insurance companies, which are engaged in a highly specialized business that thrives in cooperative form), but absolutely and also in relation to their ordinary commercial competitors. Almost everybody has heard of "Sunkist" oranges and "Land o' Lakes" butter, both prominent cooperative trade brands. The gross business of producers' cooperatives now runs into the billions annually, and is beginning to crowd the orthodox capitalist middlemen. Equally spectacular in quality if not in degree, and much less widely advertised, is the success achieved by employee-ownership of and within a conventional industrial or commercial corporation. Yet neither a producers' cooperative nor a corporation owned by its own officers and employees can move towards dominance in the sense that finance-capitalist vertical trusts do. The very fact that such enterprises are owned by the individual producers, who are natural persons, precludes their ownership by the artificial person of a holding company—the favorite and characteristic device of finance capitalism for the linking of operating units into an empire.

The socially constructive technique of profit-sharing is open to vertical trusts, and some have availed themselves of it to a limited extent. But the widespread adoption of the idea by finance capitalists has not come about, largely because their reluctance to perceive its advantages was not overcome until the demands of labor unions for increases in basic wage scales put it beyond their power, as they thought, to embrace profit-sharing. Hence, in part, the survival of the bonus system, resorted to occasionally in order to head off still further union demands.

We recur, therefore, to the basic proposition that "any con-

tinuously successful solution of an individual competitive problem will tend to make an affirmative contribution to the objective of leveling the business cycle as a whole." A "continuously successful solution" cannot consist of the elimination of competition, through absorption either direct (merger) or indirect (through a holding company); that is to say, it must remain within the framework of capitalism, which is fundamentally competitive. It must be based upon efficiency, which is measured in terms of unit costs, and express itself by meeting the competitive prices which efficiency elsewhere makes possible. Such a solution is certain to be characterized by relatively high wages (as well as by relatively low prices), because the prerequisite of maximum efficiency in operation can be satisfied only by paying high wages. It is very likely to embody profit-sharing in some form, since profit-sharing is the best guide available to the proper height of a "high" wage, and also introduces a needed factor of flexibility. Outright ownership by officers and employees is the optimum solution *if adopted universally* and if conjoined with an enlightened and practical policy of lowering prices. It would strengthen consumer buying power not only through high wages but also through the declaration of dividends on the capital stock held, by hypothesis, by the many millions of breadwinners employed by corporations.

But employee-ownership has not been adopted by everybody, even among little business enterprises, though the trend is growing there. It cannot be adopted at all by big business because of its very nature. Yet big business dominates the finance-capitalist scene. Its struggle to find a "continuously successful solution for an individual competitive problem" in each case and thereby contribute to the general objective of leveling the business cycle has necessarily been without benefit of employee-ownership, with only slight benefit from profit-sharing and part of that in the inferior bonus version, and with no guide except the largely rejected one of competition to the proper size of a "low" price. (Big business shares the latter uncertainty with all other forms of business organi-

zation except buyers' cooperatives and mutual insurance companies.)

Let us see how big business has characteristically borne its dominant responsibility for administering the "economy of high wages and low prices," which is largely its own and very sound invention. Let us assume circumstances for the hypothetical automobile company we postulated in Chapter IV for the purpose of identifying the four strata of corporation personnel typically found in vertical trusts. I have localized these circumstances in fiscal 1928-29 and 1929-30, because obviously the time must fall within the era when finance capitalism prevailed, and it must illustrate the beginnings of a depression. Both the corporations and the figures employed are imaginary. But I believe that they present adequately a composite picture of the time and its besetting problems.

XI

Illustrative Case History

ALTHOUGH our automobile company is usually considered to be such, it is actually a holding company which controls a number of subsidiaries. Four of these are engaged in producing four different models of automobiles in four distinct price classes. The others fabricate automobile bodies, shatterproof plate glass, ignition systems and rubber tires. It is capitalized at $470,000,000, its structure consisting of 1,200,000 shares of six per cent preferred stock of the par value of $100, and 35,000,000 shares of common stock of the par value of $10. All of the preferred shares and most of the common are held by the general public. But a minority block of common sufficient to assure control is owned by two influential families of financiers and industrialists, who between them also control two small but profitable industrial railroads, a Great Lakes steamship company, a steel company and a chain of commercial banks.

Over a series of prosperous years the "automobile company" has accumulated an undivided surplus of $65,000,000. In the fiscal year 1928-1929 the company, though it originally planned production of only 900,000 units, actually turned out and sold 1,000,000 units at an average price (wholesale) of $1200. Out of this gross business of $1,200,000,000 it realized a net profit after taxes of $210,000,000, which it distributed as follows: $7,200,000 paid as the current dividend on the preferred stock; $70,000,000 paid as the regular dividend on the common stock; $56,000,000 paid as an extra dividend on the same common stock; $36,800,000 transferred

to surplus; $16,000,000 added to wages as a bonus and $15,-000,000 added to salaries as a bonus. Because of the extra dividend the common stock, which had been selling around 82½ on the New York Stock Exchange, spurted to 90. In spite of the bonus, the labor union leadership demanded and eventually obtained an upward revision of most of the established wage scales sufficient to increase the average unit cost of doing business, on the same volume as in 1929, from $990 to $1030. Except during the seasonal layoff for retooling, the company and its subsidiaries employ approximately 200,000 wage earners.[1]

As the 1929-1930 season is about to begin, all prior decisions having been made, the executive group is required to determine the prices and quantity of production which will yield the maximum volume profit. This can be forecast only by multiplying various hypothetical unit prices by the corresponding estimated volumes of sales. Estimating the volumes is the difficult part of the task, since it requires advance knowledge of the probable level of purchasing power of each class of potential customer. How much of it may be expected to be spent for merchandise like automobiles? How much of this in turn will be diverted into indirectly competing goods like radios, washing machines, vacuum cleaners, electric refrigerators and the like? How much of what remains will be captured by direct competitors? Such questions as these are all affected by the prices which other manufacturers will set upon their products. Not all of them know what the prices will be, for many are now wrestling with the same problem that confronts our automobile concern. The executives have the benefit of the conclusions of various market analysts and statisticians, public and private. But these do little more than record the experiences of the previous year. Their figures do

[1] The figures in the text are adapted from the financial statistics for an actual corporation in 1929 quoted by Standard & Poor's Corporation. While the distribution has been altered slightly and purely imaginary facts have been assumed in the course of the discussion, the relation to one another, percent-

not entirely agree. The consensus is that demand will be at least as strong in the coming year as it was in the year just closed. Advice from the financial headquarters of the enterprise is to the same effect.

Getting down to cases, the executives perceive that to realize another net profit of $210,000,000 it will be necessary, in view of the increased unit cost of manufacture, either to move the same volume at an average price increase of $40, or a large volume at the last season's price of $1200, or a still larger volume at a lower price. Common sense tells them that the old price will not move a larger volume, or a higher price the same volume, unless demand is substantially stronger than in the previous year; and that is not indicated by the market forecasts. Therefore a slightly lower average price seems to be indicated, or else an attempt to move a still larger number of units at a still lower average price.

Disregarding probable decreases in unit costs as volume increases, the executives note that an average price of $1190 would require the sale of 1,312,500 units to clear the desired $210,000,000. The same purpose could be accomplished by disposing of 1,400,000 automobiles at an average price of $1180. It has been the company's experience that price decreases usually stimulate demand in ratios resembling a geometric progression. Therefore a majority of the top executives prefer an average price of $1180, even though it will require a greater sales effort, to an average price of $1190. The president makes his recommendation to the board accordingly.

The board, however, is advised by the controlling finance capitalists that a deal is pending for the absorption of an independent automobile company on the basis of an exchange of stock. To this end it is imperative to support the market price of the "trust" stock, which can be done only by securing the hoped-for extra dividend. Hence the recommended average of $1180 is too risky, and the average of $1190 will be adopted instead.

This decision taken, orders previously held in abeyance go

forward to the sources of raw materials and to the satellite manufacturers. The orders of competing manufacturers likewise are placed. Soon things are humming; not only in the iron mines, the smelters, the strip mills, the rolling mills, the copper plants, the glass, rubber tire, textile and paint factories and the scores of other establishments that supply the automobile industry, but also in most of the other industrial and commercial organizations of the country and their sources of supply. The whole economy is sympathetically affected in some degree. Railroads are hauling near capacity. The stock markets burst through previous ceilings. Department stores and grocery chains are buying heavily. Periodicals and other advertising media flourish extravagantly. Bankers, for once, are lending money to almost anybody for almost anything. So also, unfortunately, are brokers and the finance companies that deal in chattel mortgages and conditional sale contracts. Even real estate begins to boom, notwithstanding the Florida fiasco of unhappy memory and the equally wretched speculation in midwestern farm lands.

The rest of the story need not be retold. Within an incredibly short time after the stock market crash of October, 1929, the whole bustling, hectic, prosperous scene vanished like a mirage, leaving in its place the desert, empty except for the unemployed, who eventually numbered something over 11,000,000.

The foregoing hypothetical case tells us very little about the prime causes of the depression of the 1930's. We might learn more about them if the real facts and figures of many thousands of experiences were substituted for those in the illustration. Yet we would still know nothing about the prime causes, the inner nature and substance, of *all* capitalist depressions, past, present and future. Nothing less than such knowledge would enable an exact, scientific treatment of the problem.

Without such knowledge, however, it is still possible to

a fairly representative hypothetical case are just as suggestive as the real facts of any number of actual case histories.

Two points of fundamental importance in the functioning of finance capitalism's most characteristic form of business organization are illustrated by our automobile concern and the empire of which it is a part.

The first of these is the hopeless inadequacy of the techniques employed for arriving at proper wages and prices for any given period of operations. Assuming that the wages agreed to be paid in fiscal 1930 were no greater than were justified by the earnings record of fiscal 1929, the agreement was a poor substitute for actual payment in 1929. From the company's standpoint the agreement was reasonable only on the assumption that operations in the following year would be at least as profitable as those of 1929. This turned out not to be the case. From labor's standpoint the agreement was responsible for more numerous and somewhat earlier layoffs than otherwise would have occurred. A direct financial loss resulted for the time actually worked, equal to the difference between the boost if the contract had run its course ($52,500,000 if we take the anticipated production of 1,312,500 cars at the average cost increase of $40 per car), and the relatively small amount of the boost actually realized (one-half, or $26,250,000, would be a generous estimate), diminished by the bonus actually paid in 1929, which was $16,000,000. On the figures stated, this lost differential amounts to $10,250,000.

The lowering of prices on 1930 models, instead of those sold in 1929, was equally unfortunate. It was a persuasive indication that the 1929 prices turned out to be greater, by an average of $10, than they were required to be in order that the company might realize its estimated gross. As a matter of fact, the company had originally planned to produce and market only 900,000 units at $1200 each. So the unlooked-for increment could not have been less than the unit profit ($210) multiplied by the excess of the actual over the expected volume (100,000), or $21,000,000, which constitutes an extra profit on the entire volume of $21 per car,

rather than $10. Taking the reduced price of $1190 as it stands, however, it is regrettable that it was not written upon the invoices of 1929. The postponement for one year was inadvertently unjust. It conferred the benefit of the $10 differential upon purchasers other than those whose patronage in 1929 made it possible. In the second place, it was injurious to the economy as a whole. It left 1,000,000 people poorer by $10 each than they need have been when the storm struck.

Ten dollars does not seem like much money in a depression. But when one thinks in terms of $10,000,000 of purchasing power lost to these customers and of the additional $10,250,000 lost to labor by management's failure to hit upon the right price and the right wage for 1929, and then adds to this aggregate of $20,250,000 all the similar errors made by other business corporations during the same period, one begins *to glimpse the possible effect upon history of the right* price and the right wage at the right time.

Assuming the theoretical existence of an ideal formula for the distribution of the annual production of wealth, it is clear that any departure from it will be both unjust and dangerous. In a period of rising prosperity, ownership receives relatively too much, labor is relatively underpaid and the customer is relatively overcharged. Consumer purchasing power, indispensable to future operations, is being in part withdrawn from the general public and in part withheld from labor. If the process is repeated a number of years in succession, as it is whenever an upward trend and not just an isolated season is involved, this sapping of purchasing power, unnoticed at the time, gradually undermines consumer demand, which is the foundation of the economy, and prepares the way for collapse. After the collapse begins the situation is reversed. Prices should immediately be slashed towards cost, if the maintenance of production is desired, in order to keep up the volume of sales to the necessary minimum level. If this is accomplished successfully, ownership realizes no profit or even incurs a deficit, while labor is paid too much (under the old scales) and the customer is charged too little. But if

the collapse is really a collapse, and not just a temporary recession, even this qualified success cannot be achieved. The destruction of mass purchasing power is too extensive.

It is apparent, therefore, that wages and prices tend towards rigidity in a process which needs to be kept fully flexible. They are continuously revised as circumstances change; but the damage has been done before necessary revisions can be made. Indeed, it is usually the damage to the interests involved which first indicates the desirability of change. And the revisions, when made, are based on nothing more substantial than future expectations derived from past accomplishments.

This constantly recurring factor of future time is the nub of the wage-price problem. Any attempt to deal with it on the basis of foresight is bound to be confounded sooner or later. The superiority of hindsight as the basis for necessary adjustments is a lesson yet to be learned by the dominant elements of finance capitalism. Commitments must be made at the beginning of a year on the strength of anticipation rather than certainty; but adjustments at the end of the year need not be made to operate prospectively. They can just as easily be made retroactive, as they are in the wage field by the device of profit-sharing, and in the price field by the technique of consumer-cooperation and, less efficaciously, by the practice of customer-ownership in vertical trusts. If both wage and price adjustments are made retroactive, then the revised distribution will be in terms of hatched chickens instead of unhatched eggs. Agreement in advance as to the final distribution, to be accomplished through retroactive adjustments, would introduce needed flexibility in the economic process by making wages and prices reflect accurately, at the end of each year, the operations of that year. It would also promote stability by feeding the future instead of devouring it.

This brings us to the other salient point to be deduced from the experience of our imaginary automobile manufacturer and of the empire to which it belongs. It is implicit in the mere existence of such aggregations of financial and in-

dustrial power. It becomes explicit in the consequences of the decisions which almost inevitably will be taken where enormous enterprises are involved.

The proposal of the executive group to produce and try to sell 1,400,000 automobiles in 1930 at an average price of $1180 was rejected by the controlling finance capitalists, who stipulated that the goal should be 1,312,500 units at an average price of $1190. Either plan, if realized, would have produced a gross income sufficiently large to insure a repetition of the 1929 net profit amounting to $210,000,000, which would have satisfied the common objective. The executives' preference for the higher production at the lower price was motivated by their first-hand knowledge of market behavior, which told them that a $20 reduction from the 1929 price of $1200 would give them a better chance of selling 400,000 automobiles in excess of the 1929 record, than they would have of marketing only 312,500 more units at a price reduced by only $10. The finance capitalists were presumably aware of the market factors supporting this view. But something in their position prevented their attaching the same controlling weight to them. That something was a major preoccupation with a pending stock deal designed to gain control of an independent automobile manufacturer. This led the finance capitalists to prefer the apparent safety factor of $10 more profit per unit of production. To them $1190 appeared not much greater than $1180; they evidently felt that the number of prospects who would have bought at $1180 but not at $1190 would fall short of 87,500, the number of sales at $1180 that would be required over and above the number at $1190.

The desired absorption of the independent manufacturer was primarily of concern only to the finance capitalists directly involved. Its relevance to the problem of production and distribution was only indirect and remote. From the standpoint of the social interest in higher production at lower prices, the project was at best irrelevant despite whatever benefits might have inured to the erstwhile independent

through integration into an empire, and at worst harmful through the taking of one more step towards monopoly.

It would be a mistake, however, to attach too much importance to the contemplated stock deal. In all probability the finance capitalists still would have preferred $1190 to $1180 as an average price, even if they had had no ulterior purpose in view. To those who control large interests a safety factor, such as is represented by the $10 differential between the prices under consideration, is immensely attractive. The degree of attractiveness is roughly proportional to the size of the interests involved. For the greater the damage to be anticipated from an error in judgment, the less disposition is there to run any risk in excess of an irreducible minimum. The essence of capitalism is the taking of risks. Yet the prevailing motive of finance capitalism is the avoidance of risks.

The paradoxical consequence of this defensive psychology is that it tends to defeat its own ends. To see why let us assume (what could never be proved) that both the executive group and the finance-capitalist group were correct in their estimates, namely, that 1,400,000 cars could have been marketed at an average price of $1180 and that 1,312,500 cars could have been marketed at an average price of $1190. Upon these facts, it would appear to be a matter of indifference to the company and to the empire which pair of alternatives were adopted. But in consequence of the higher price and lower production schedule, 87,500 would-be purchasers would have been precluded from buying these automobiles. The 1,312,500 assumed to have purchased would thereby have surrendered a total of $13,125,000 more of their combined purchasing power than was necessary from the standpoint of the company's own interest. Approximately the same sum would have been saved by the 87,500 who refused to part with $1190 apiece; but that is cold comfort for our imaginary friends, since presumably a large part of this "saving" would have gone to their competitors. To the extent that this is so, it not only would have diverted the patronage of the pur-

chasers for the year in question, but would have tended to prevent its recapture in the following years.

As a matter of fact, both the executive group and the finance-capitalist group were wrong in 1929. Neither the figure of $1180 nor the figure of $1190 would have accomplished what was hoped for, in view of the unforeseen tragedy which impended. The full extent of the injury to the economy inflicted, however innocently, by finance-capitalist organizations and motivations, is not measured by the deleterious effects of miscalculation in a single year, as might be the case if prospective adjustments of wages and prices rectified the errors previously made. Prospective adjustments never do and never can obliterate past mistakes. All they do is to make future commitments which become progressively less realistic. The consequences of past error, inevitably carried forward, accumulate towards catastrophe. This is the mechanics of depression, and will remain as it has been as long as prospective, rather than retroactive, adjustments remain the fashion.

But the suddenness, scope and intensity of finance-capitalist depressions are immensely greater than those typical of the simpler industrial phase of capitalism. In terms of mechanics, an explanation of the difference can be found only in the vastly increased size of the segments of production subject to centralized controls, and the consequent reduction in the total number of independent judgments which have free play. If all the steps in a given economic sequence are linked together into one vertical trust, the mistake of those who control the trust becomes the simultaneous mistake of all its component parts.

Even if these vertical trusts were not themselves linked into financial-industrial empires, which many of them are, their economic influence would be wider than that which results from outright control of individual operating units. If there are 20 production units in a given industry—say, automobiles—and they are all managed independently of one another, the 20 management groups will approximate 20 different conclusions as to the probable market for the fol-

lowing year, and will plan accordingly. But if 15 of these production units are organized into three vertical trusts of 5 units each and only the remaining 5 are independent, then clearly there can be no more than 8 guesses in all, as against a possible 20 otherwise, concerning the future market. Actually, the number will be less than 8, because reluctance to compete vigorously will closely align the 15 integrated units, whether by secret agreement or by mere imitation. The 5 independents are very apt to follow suit, because big business is very much more likely to be right than wrong—or so it seems to them.

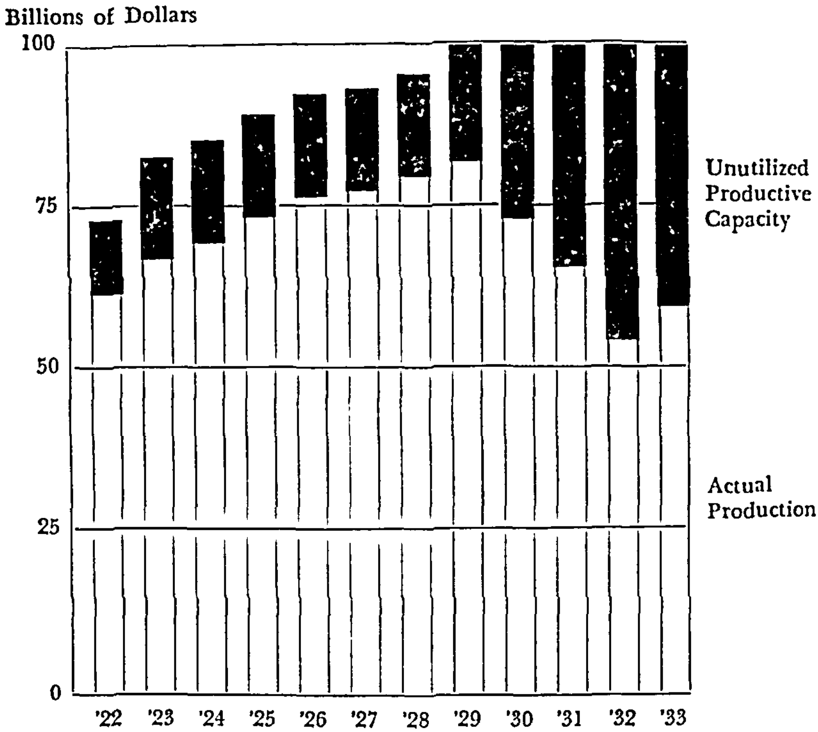
Actually, there is some basis for little business to believe that the odds are on the rightness of big business' collective judgment. This is where the imperial superstructure comes into the picture. Where the economy is dominated by a half-dozen giant combinations ramifying through all sectors of industrial, commercial and financial activity, the identical or closely similar judgments at the apexes of the pyramids are so massive that they tend to be self-fulfilling. They account directly for a large fraction of wage and white-collar employment, and greatly stimulate what they do not control, both among their own sources of supply and among those who supply the needs of those who prosper when the mighty are optimistic. Through sympathetic action and reaction, an upward trend initiated at the top permeates most of the economy and cannot be arrested elsewhere than at the top. It cannot be arrested there either, for who or what is to do the arresting? This was the basis of President Hoover's prophecy of a "new era" of unlimited prosperity, which could not be proved wrong at the time, although we have since learned that it could not be reconciled with the actual facts of production and consumption.

What those facts were is represented graphically by the two following charts.[1]

As appears from the first chart, the productive facilities of

[1] Reproduced from the November, 1935, issue of *Fortune* (pp. 77 *et seq.*), by courtesy of the The Brookings Institution.

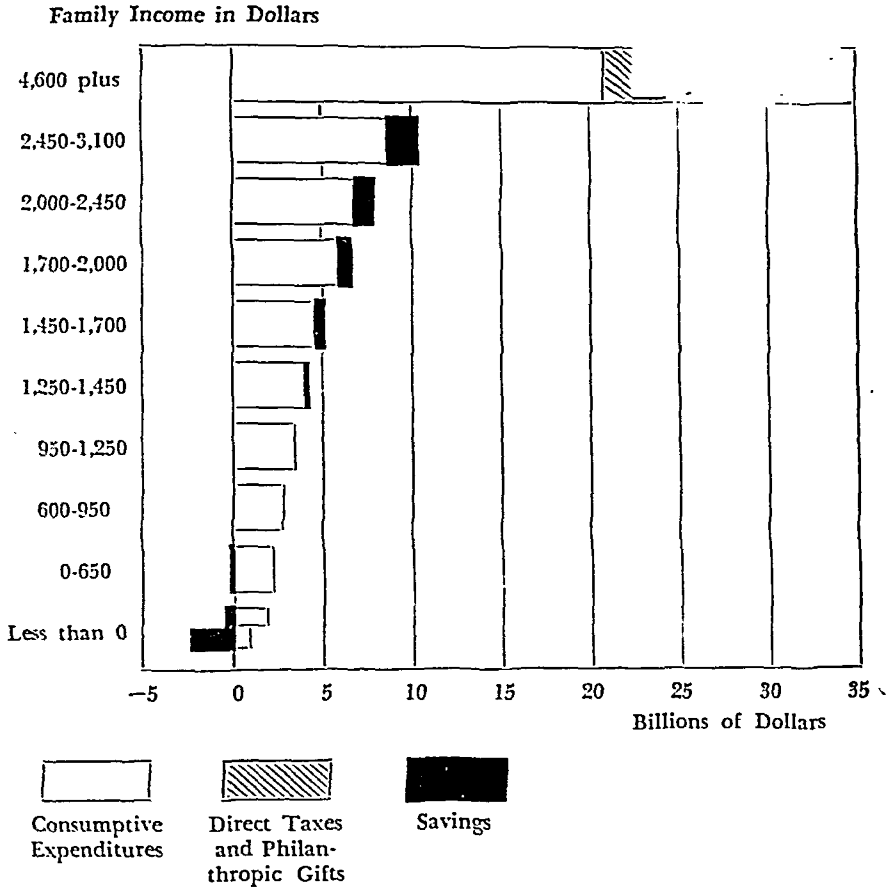
PRODUCTIVE CAPACITY AND ACTUAL PRODUCTION
1922-1933



this country were never utilized, in the period we like to think of as marking the height of prosperity, to a greater degree than about 80 per cent of capacity. During the depression years of 1932 and 1933 the actual output was less than 60 per cent of what it might have been.

On the consumption side, the second chart indicates how far short our economy fell, even in 1929, from satisfying the reasonable needs of our society. The comment on this subject of The Brookings Institution is particularly cogent:

SAVINGS AND CONSUMPTIVE EXPENDITURES, 1929
(Each Bar Represents 2,750,000 Families)



ulation, would have given to each person approximately $665. There were nearly 6 million families with incomes less than $1,000; 12 million with incomes under $1,500; over 16 million with incomes under $2,000; and over 19 million, or 71 per cent of the total, with incomes less than $2,500. A family income of $2,500, at 1929 prices, was a very moderate one, permitting few of the luxuries of life. Hence it was clear

> that the consumptive requirements, and especially the wants, of the masses of the people were far from satisfied.
>
> To raise the incomes of the 19.4 million families receiving less than $2,500 in 1929 to a $2,500 level, with no changes in the incomes of the families receiving more than that amount, would have required an increase in national production of more than 16 billion dollars. A horizontal increase of $1,000 in the incomes of all families receiving less than $5,000 in 1929 would necessitate an expansion of production to the extent of over 25 billion dollars. To give all the families of the nation a "reasonable standard" of living, such as is set forth in studies made by the Bureau of Home Economics of the United States Department of Agriculture, would have necessitated an increase in production over 1929 levels of approximately 75 per cent. The full ultilization of our productive capacity, it will be recalled, would have permitted an increase in production of only 20 per cent, or 15 billion dollars. We were clearly not confronted in 1929 with overproduction either actual or potential. The desires of the people were vastly greater than could have been satisfied by the productive power then available.[1]

In the light of the true conditions prevailing at the crest of the boom (to say nothing of the conditions which succeeded them), President Roosevelt's observation that one-third of the nation is ill-fed, ill-clothed and ill-housed is a model of understatement.

From concentrations of economic power nothing can be expected but the disastrous consequences of concentrated error, whenever error occurs. Catastrophes of such dimensions are socially intolerable and must be prevented. Therefore there are only two courses open: either the collective judgment of the economic rulers must be preserved from error by shackling the population to a planned economy; or else the risks of error must be diversified by splitting up the few great judgments into a multiplicity of little judgments. This can be done only by razing the corporate pyramids and re-

[1] *Income and Economic Progress*, pp. 37-38.

storing the instruments of production to the organizational pattern which prevailed during the industrial phase of capitalism, when capitalists were primarily production men and not primarily financiers. A mere return to industrial capitalism would not, however, attain the objective of mitigating the business cycle unless the newly won independence of *all* units were enlightened and informed by the constructive experiences gained, mostly by forward-looking little business organizations and by various expressions of consumer cooperation, during the finance phase of capitalism.

Merchant trading was not typical of feudalism but it set the pattern for mercantilist capitalism. Railroad systems were not typical of industrial capitalism but they set the pattern for finance capitalism. Then why cannot profit-sharing, employee-ownership and consumer-cooperation, none of them typical of finance capitalism, impress the values of decentralization and of automatic, retroactive adjustments of wages and prices upon a later and far more healthy phase of capitalism? Practical experience suggests that therein lies our best hope of approaching in the economic sphere the ideal of democracy which for five hundred years has been our noblest political aspiration, passionately sought and passionately defended.

PART FOUR: THE THEORY OF DEMOCRATIC CAPITALISM

XII

Formulation of the Democratic-Capitalist Theory

WE ARE now ready to formulate a specific program incorporating the values of decentralization and of the retroactive adjustment of wages and prices.

The question immediately arises whether decentralization and retroactive wage-price adjustments are to be sought directly, as literal objectives, or whether the "values" they contain are to be approximated indirectly, through the pursuit of equivalents. This question is neither fanciful nor academic, but of the highest practical importance. We have seen that the ultimate values involved add up to an expanding economy characterized by true stability and flexibility. One important school of economic thought would insist that these ultimate values can be achieved through (and only through) the pursuit by government of an enlightened fiscal and monetary policy. The same school, no doubt, would also argue that any direct attack upon the wage-price problem and the problem of capital combinations would necessarily be managerial in technique, and destructive in the long run of the individual freedoms we are trying to save.

It is certainly true that a direct attack coercive in method

would be managerial and, if our earlier analysis is sound, would lead to complete regimentation. On the other hand an indirect approach, through day-by-day fiscal and monetary manipulation, is unlikely to eliminate or even alleviate the business cycle. Essentially inadequate seems any fiscal-monetary scheme which leaves the basic pattern of finance-capitalist organizations intact, and their wage-price policies undisturbed. Competition is essential to the health of a capitalist economy, yet competition cannot be restored so long as the key industrial sectors continue to be dominated by quasi-monopolies. Moreover, stimuli to consumer demand, injected by any conceivable fiscal-monetary measures not directly affecting prices, are certain to be nullified by further advances in the price levels. Finally, fiscal-monetary policies, administered without advance warnings by a bureaucracy, inevitably induce in free enterprise about the same reaction as is shown by a cow when a visitor from the city tries to milk her: marked and immediate loss of confidence.

Experience to date strongly suggests that fiscal-monetary capabilities should be utilized to determine the rules of the capitalist game, to be played by free enterprise without daily interference. Rules so fixed need not and naturally would not be eternal. But they should not be changed in the midst of a play, and never on the mere say-so of administrative officials, however expert. Congress alone should change the rules, after the usual hearings in which business and finance, as well as economic theorists, can have their say. Any other mode of procedure will ultimately put an end to the capitalist game altogether, and substitute for it the hopeless and uninspired, because irresponsible, drudgery of a regimented political economy.

Our question of goals and techniques is readily answered by reflection upon the dilemmas indicated above. If managerialism is to be avoided, then clearly the technique of our program must be indirect, which means that it must be found somewhere among fiscal-monetary methods, for there is no alternative. Yet, at the cost of a seeming paradox, our indi-

rect method must operate directly upon capital combinations and their wage-price policies. Otherwise we are foredoomed to the same inadequacy besetting every other suggestion which has emanated thus far from fiscal-monetary ranks. The values we seek, then, must be the literal values of decentralization and of the retroactive adjustment of wages and prices.

Some further discrimination is required. We cannot have employee-ownership and customer-ownership within a single enterprise. Profit-sharing, though available to any type of business, does not, by itself, bring about needed decentralization. Consumer-ownership, though it accomplishes a retroactive adjustment of prices, does nothing about the wage problem. Profit-sharing, though accomplishing the retroactive adjustment of wages, does nothing about the price problem. Employee-ownership, highly salutary though it is in merging the interests of capital and labor, still leaves the price problem untouched, and benefits consumer demand only indirectly.

In short, the devices we have been considering are the raw materials of a solution rather than the solution itself. The ultimate objective is nothing less than to level off the business cycle, and to do so in an ascending direction, not in a descending one. The tools we have inspected are good and useful tools, and it is not a valid basis of criticism that each is capable of doing only part of the work that needs doing. Part of our present task is to combine and extend the techniques of profit-sharing and employee-ownership by removing the obstacles which have heretofore prevented widespread adoption. For the rest, we must complete the design by attacking the price problem. This can be accomplished by *adapting* the principle underlying consumer-cooperation, even though it is not directly applicable in its present form.

One of the questions posed by the prevailing philosophy of high wages and low prices concerns the mechanics of decision. As to this we have seen that, aside from competition, there are no means available for determining in advance exactly what wages and prices should be for any given period

of operations. Business has been remitted, therefore, to adjustments after the event. We have also seen that the technique of adjustment characteristic of capitalism, namely, raising *future* wages and lowering *future* prices in the light of *past* experience, is bound to break down sooner or later. For it is based on a projection into the immediate future of economic conditions of the immediate past—an assumption that may become invalid at any time and always does eventually.

Retroactive adjustments avoid this pitfall of constantly recurring future time. Mechanically, they meet the requirements. But substantively, how much of a retroactive adjustment should be made, either of wages or of prices? Should the percentages be the same, or different? What should be the relation between the retroactive distribution to labor, or to the customer, and the conventional distribution to capital in the form of dividends? We know that in any case of employee-ownership, the *entire* net earnings go to the interfused capital-labor group. We also know that in any case of consumer-cooperation the *entire* net earnings (except for surplus requirements in the case of a mutual insurance company) go to the interfused capital-consumer group. This brings us to the heart of the distribution problem.

Viewing it abstractly from the standpoint of an isolated undertaking, we know one thing further, namely, that in the conduct of any economic enterprise whatsoever, *three* distinct functions are involved, though the person or persons performing them may be identical, or may overlap. There must be access to the instruments of production. There must be actual production. And there must be either direct consumption, distribution for consumption by others, or both. Primitive man, emerging from his cave to hunt game, had exclusive access to the instrument of production, a club or stone axe. He produced and processed his kill, and he consumed part of it himself and distributed the rest, at least to the family group, for consumption by others.

In modern times the characteristic unit of production (ex-

cept in agriculture) is not the individual, but the corporation.[1] This is because advanced technology cannot be handled in any other way: the division of labor it imposes is becoming ever more detailed and more refined. Hence the corporation

[1] There seem to be no statistics directly showing the proportions of annual production accounted for, respectively, by corporations and by various forms of non-corporate enterprise. A reasonably close estimate can be made, however, on the basis of data published in the Brookings Institution study previously cited.

In *America's Capacity to Consume,* Table 13, p. 163, reports the aggregate *income of individuals in 1929 from entrepreneurial returns as $12,451,000,000* and from interest and dividends as $10,478,000,000. As to the entrepreneurial returns it is pointed out (p. 165):

"Entrepreneurial returns, as previously stated, are a mixed category, since they are composed of compensation for services and returns on property. If in the total entrepreneurial income (12,451 million dollars) labor income were separated from property income on the basis of the relationship between payments to employees and returns to property in corporate enterprises, the labor income would be approximately 10 billion dollars and the capital income 2.5 billion."

Making the adjustment indicated and at the same time adding to the "interest and dividends" figure the amount of the addition to corporate surplus in 1929, elsewhere reported (Table 9, p. 157) as $2,238,000,000, we find that the total earnings of capital invested in business corporations amounted to $12,716,000,000, while the total earnings of capital invested in non-corporate enterprises amounted to $2,500,000,000. These figures indicate a ratio of corporate production to non-corporate production of approximately 5 to 1.

This conclusion can be checked against Table 8, p. 156, which reports *realized income from individual enterprise of all kinds as $14,188,000,000, and* income from the holding of property used in production (i.e., interest, dividends and rent) as $12,164,000,000. Making the same adjustments as in the case of the Table 13 figures, we see that the corporate investment return is $14,402,000,000 and the non-corporate investment return is $2,837,600,000. Again, the ratio is approximately 5 to 1.

So much for an inference from relative returns on invested capital. If the indicated ratio of 5 to 1 is correct, it should be supported by a 5 to 1 breakdown of the total income from wages and salaries ($52,793,000,000, according to Table 13) plus the $10,000,000,000 transferred from "entrepreneurial returns." The indicated breakdown yields $52,306,569,000 and $10,486,431,000 respectively. These figures should be comparable to the average of the capital return figures supplied by Tables 13 and 8, multiplied by 4. The averages for the corporate investment return and the non-corporate investment return, multiplied by 4, are $54,236,000,000 and $10,674,400,000, respectively. It appears, therefore, that the estimated 5 to 1 ratio of distribution of total production in 1929 as between corporate and non-corporate producers is within 4 per cent of being accurate.

is the dominant form of economic organization, whether the surrounding social relations are capitalist or managerial. If they are capitalist, access to the instruments of production (ownership and decisive control) is vested in private individuals holding private corporate charters. If the social relations are managerial, access to the instruments of production (complete control, with or without ownership) is vested in the state. In either case, actual production is accomplished by managers and workers who may be regarded functionally as employees of the corporation, and distribution is accomplished through exchange transactions of some sort.

In no case can there be any business without capital investment, or without management plus labor, or without market outlets. All three are indispensable. Their respective contributions to the total result, therefore, may initially be assumed to be equal, as an inference of abstract logic. This observation, standing alone, would suggest the propriety of an equal three-way division of annual corporate profits among (1) the corporation and its stockholders, by conventional dividends, (2) its employees, by "employment dividends" and (3) its customers (immediate, not remote), by "trade dividends."

Equality of reward based on presumptive equality of contribution would disregard, however, the obvious and important fact that only a fraction of the nation's breadwinners are employed by corporations. No data seem to be available on the number of individuals employed by corporations, but it cannot be anywhere near proportional to the 5 to 1 ratio of total production apparently accounted for by corporations. One would not expect it to be, in view of the vastly greater productivity (measured in dollar value of output) of a man working on a mass production assembly line, say, as against that of a self-employed farmer working without machinery. Furthermore, we know from the 1930 census (the last one free from the artificial and temporary distortions incident to the war) that 43.8 per cent of the total population was classified as rural. Among these only a very minor fraction of

breadwinners would have been corporate employees. Among city dwellers the fraction, though much higher, still would have fallen far short of 100 per cent. All consumers in the country, rural as well as urban, buy the products of corporations, whereas only a minor fraction of individuals work for corporations. It might seem advisable, therefore, in considering a plan for the automatic, retroactive adjustment of annual wages and prices, to forget about wages and to concentrate upon prices.

Additional force is lent to such a suggestion by the fact that any enhancement of industrial wages would further increase the existing disparity between industrial production income and agricultural production income. This disparity has already been responsible for great mischief in the economy as a whole. Quite plainly, however, the wage factor cannot be ignored in connection with any general revision of the distribution of corporate net earnings. The contribution of labor to those earnings is presumptively equal to the contributions of capital and the customer. It must, therefore, be accorded something more than token recognition.

A third complicating factor stems from the putative share of capital. If two-thirds of annual net earnings are divided between the employees and the customers, no matter in what proportions, the one-third remaining to capital might prove to be insufficient to meet reasonable surplus requirements and reasonable dividends on capital stock. This observation would be offset to some extent by the fact that trade dividends attributable to the corporation's own purchases would come into its hands. Still, the effect of the adoption of such a scheme might be to drive prices up so sharply and so quickly as to defeat the distribution experiment before it ever had a chance to make itself felt.

This is not to imply that the size of past dividends and of past additions to corporate surplus cannot safely be decreased and must, therefore, be preserved. Indeed, it is the precise opposite of such a thought that would constitute part of the motivating force behind any scheme of altering the pattern

of distribution. But there is a genuine need to safeguard capital investment and to reward investors which cannot be overlooked. The ascertainment of the extent of this need, in terms of a percentage of profits, poses the third difficulty in solving an economic puzzle which thus consists of three interacting variables.

Another possible difficulty requires comment. If equality of distribution is impractical, is uniformity any more so? There are wide variations as between industries in the amount of capital required to be invested in plant and equipment. Assuming two enterprises fairly representing two different industries, each earning $100,000 a year, but one requiring for this return an investment of $1,000,000 and the other an investment of $2,000,000, should not the share of earnings retained by ownership be twice as great in the second case as in the first?

This question, though plausible, raises no special difficulty. The inequality of return upon invested capital would be no more vexatious under a system of uniform three-way distribution of earnings than it is under the present system of uniform one-way distribution. If the uniform percentages determined upon in the light of average requirements should prove insufficient for capital in particular lines, prices will rise in those lines until the deficit is made up. It is far better that needed adjustments should be achieved through the automatic operations of the price mechanism, than that they should be made through the excess profits tax technique of attempting to measure invested capital.

Uniformity of distribution, then, is feasible, although equality is probably not.

To point out the distribution difficulties is not to characterize them as insuperable. To be sure, no expert analysis of the problem has yet been undertaken. Some, at least, of the data required has not yet been gathered. It is likewise true that any answer that might be computed from cold figures would at best be not much better than an educated guess, in advance of an actual trial of the indicated scheme of distri-

bution and a study of the statistics produced by such a trial. But if our review of the history of capitalism and of its recent practices has taught us anything, it is that *any* revised but uniform distribution involving a retroactive adjustment of wages and prices (especially the latter) cannot fail to improve the operation of the wage-price system. Once such an improvement has actually been realized in any degree whatsoever, it can be refined and expanded in the light of accumulating experience. We need to know more than we know now in order to determine precisely what the distributive shares should be as between capital, labor, and consumption. But we already know enough to be convinced that the *principle* of such a three-way distribution is of vital importance and capable of adoption in advance of exact knowledge as to the optimum proportions of distribution.

In elucidating this principle I shall speak of the three distributive shares as if they were equal. This does not reflect a belief on my part that each factor in the problem, when considered by itself and weighted against the other two, will corroborate the presumption of equality which is the logical starting point of a study. It merely reflects the presumption itself. Any departure from this might imply a considered judgment which I have not made and which, so far as I know, nobody is in a position to make at this time. The alternative possibility of continuing to use an indefinite word, such as "share," is objectionable for rhetorical reasons; it introduces an element of vagueness into a discussion which can be made lucid only by keeping it concrete. I should further point out and emphasize that my choice of equality is *not* prompted by any preconceived ideas of social justice. For the purposes of this book social justice is whatever works best for the community as a whole, be the respective shares of the three elements participating in the economic process what they need be in order to bring about optimum results.

The (figuratively) equal distribution of net profits (computed as stated below) as between capital, labor and the consumer is but one half, and the second half at that, of the basic

program for achieving what I shall refer to hereafter as democratic capitalism. The other, and logically the first, half of the program would accomplish the dual purpose of liquidating the finance-capitalist combinations and of restoring the constituent corporate units to independent management by the appropriate economic group, in each instance. It would do this by restricting the privilege of owning the voting stock of a corporation to natural persons employed by the corporation on a full-time basis. This, of course, would mean management plus labor control (though not necessarily complete ownership) of every corporation whose equity is represented by shares of capital stock. Mutual insurance companies and buyers' cooperatives would not be affected, for although both types of enterprise are corporations, neither is organized on a capital stock basis. All business corporations, however, stock and other, would of course be reached by the distribution formula of the plan.

Before exploring further the operation of the proposed plan or attempting to evaluate it in terms of its probable effect upon the economy, we should make sure that its adoption can be induced, notwithstanding the objections of certain groups or individuals within the economy; and additionally in the United States, that opposition to the program could not attack it successfully on constitutional grounds.

It is entirely clear that the suggested alterations in capitalist relations would never come about spontaneously, as the result of preachment or example, no matter how persuasive. The old customs are too deeply rooted to admit of any possibility that the necessary changes would be adopted widely enough to become decisive within the economy, and nothing less would suffice. Even if this were not so, the rate of change is hardly less important than the fact of change, if the drift into managerialism is to be arrested and reversed; and it is certain that the required speed would be lacking. Governmental pressure of some kind is therefore indispensable. The

real question is what kind of pressure, and how it is to be articulated.

Direct coercion by Congress in the exercise of its broad constitutional power to regulate interstate and foreign commerce is definitely not indicated. Such methods would be managerial in conception as well as in consequence. In addition, there are constitutional objections. Since the advent of the New Deal, the Supreme Court has sanctioned many applications by Congress of the commerce clause of the Constitution that had previously been held invalid, or would have been so held, beyond a doubt, had the attempt been made in earlier days. But most of the social legislation since 1933 upheld by the Court has been regulatory in character; that is to say, it has impinged upon the activities of business or its methods, not upon its fruits or its basic property and contract relations. It is one thing to canalize the streams of industry and commerce as they flow towards markets in search of profits. It is quite a different thing to compel the proprietors to give away two-thirds of their profits, when realized, to other people—even though the other people are their own employees and customers. The somewhat similar provision for taxing one group of citizens in order to pay subsidies to another group of citizens, embodied in the first AAA crop control program, was responsible for the invalidation of that statute by the Supreme Court. Similarly, any attempt to force a sale of corporation common stock now lawfully owned by other corporations or by individuals not employed by the issuing corporation would almost certainly be condemned as a deprivation of property without due process of law, within the meaning of the Fifth Amendment.

The alternative to coercion is persuasion, based on substantial inducement. Such a technique would meet the situation if the inducement were made sufficiently strong. The logical and natural solution, therefore, would be new federal income tax laws, corporation and personal, specially designed to bring about the desired results, by providing incentives for their voluntary realization. "Incentive taxation"

is thoroughly familiar and has a long history, although it was not extensively employed in the United States prior to the New Deal. One reason why not, so far as social legislation is concerned, was the pre-New Deal attitude of the Supreme Court, which denied to Congress and the state legislatures the power to accomplish by indirect means what they would not be allowed to accomplish by direct means. Since 1933 this attitude has gradually changed. As a consequence the enactment of incentive tax measures has been stimulated.

Very closely in point in respect to the price aspect of our problem is the provision of the current corporation income tax law which exempts from income taxation the net earnings of cooperatives, provided that they are distributed in their entirety to the members. Equally closely in point in respect to the wage aspect of our problem is the provision of the current law permitting corporations to deduct amounts (within certain limits) paid into any trust fund established by it for the benefit of its employees, provided that the fund may never revert, in whole or in part, to the corporation.

In respect to the stockholding feature of our program there is an analogy, in principle, to be found in the provisions of the personal income tax law of long standing which accord special treatment to the holder of stock in a personal holding company. This is a clear indication that the relations between the taxpayer and the corporation whose stock he (or it) holds may be made the subject of a special tax policy motivated by considerations of the public interest. Also of significance was the former provision of the corporation income tax law imposing special taxes upon the net profits of corporations *not* paid out as dividends to the stockholders. This measure was repealed after it was attacked on economic grounds (in view of the then existing depression), but its constitutionality was never doubted.

In view of recent trends and the traditionally greater latitude, under Supreme Court decisions, enjoyed by Congress in the exercise of its power of taxation than in the exercise

of its power to regulate commerce, there seems to be no substantial basis for doubting that a program for democratizing the capitalist economy by means of incentive taxation would be sustained by the Court.

Specifically, such a program would have two principal features:

One, imposing a tax at the flat rate of 66.6 per cent upon the net income of corporations engaged in business for profit, but granting exemption from the tax (or granting a credit of the entire amount of the tax) to a corporation which showed upon its return that it had distributed 33.3 per cent of its net to its employees and 33.3 percent to its customers;[1]

Two, imposing a special tax or a special rate of tax upon income realized on account of voting stock in a corporation held by a taxpayer not a natural person employed on a full-time basis by the corporation.

While both of these features are needed, they should not both become effective at the same time. The volume of refinancing involved in unscrambling the corporate pyramids would be colossal. In some cases the task might be as complicated as that of integrating public utility systems under the so-called "death sentence" law, for the execution of which several years were allowed. We shall return later to the problem of recapitalizing the nation's business corporations. At this point I merely wish to point out that a similar need for a time allowance exists in the situation we are considering

[1] In so far as the distribution to employees is concerned, the proposal in the text is identical in principle with a profit-sharing plan designed by Harry B. Wallace, President, Cupples Company, St. Louis, Missouri, and included in Appendix C of *Income and Economic Progress*. Mr. Wallace also employs the device of exemption from corporation income tax (though partial rather than complete) as an incentive to induce the recommended distribution. His plan does not envisage, however, any distribution to customers, nor is it concerned with the problem of breaking up concentrations of capital, by restricting the privilege of owning voting stock, or otherwise. The Brookings Institution characterizes this plan in Note 8 on page 116 of the text as "a novel suggestion for the effective administration of a universal profit-sharing plan which is interestingly related to the problem of corporation taxes."

as in the "death sentence" case, and should be provided for in the original legislation.

The first feature of the proposed act stated above naturally requires amplification. In order that the general scheme might work fairly as between the corporation and its employees, it would be necessary to furnish certain safeguards to protect each from exploitation by the other. Due regard must be paid to the fact that, at the outset, the stockholding group would not be identical with the management-labor group. Even after the two do become identical, as groups, there would be a marked, though perhaps diminishing, disparity in the proportions of the total common stock held by the respective individuals. Hence the corporation must not be allowed to recoup for its stockholders the profit they otherwise would have enjoyed by depressing wages and salaries to the extent required to offset the dividends paid to its employees and to its customers. Neither must labor be allowed to anticipate, by means of exorbitant wage demands, the share of profits it might reasonably hope to receive on the basis of the previously established wage scales. Yet some flexibility as to wages must be retained, since in a period of rising living costs labor can scarcely be expected to remain content with "previously established wage scales." To be sure, a wage flexibility feature should diminish in importance with the passage of time if the plan as a whole is sound. For living costs would not rise so sharply nor so quickly under such a system as they do at present. Moreover, any rise that did occur would be accompanied by a rise in corporate earnings, which should enable partial distributions during the year. Still, some safeguard there should be, especially at the beginning.

The determination of a fair or proper wage depends upon two factors, viz.: (1) what a particular employer can reasonably be expected to pay, based upon what he actually has paid in the past; and (2) the minimum which should be paid by any employer in a given locality during a given period, based upon the cost of living in that locality during the same

period. Consideration is given to the cost of living factor by the regional boards set up under the Wages and Hours Law. This function could properly be continued in connection with and as a part of the general plan. If this were done, then the interests of labor would be sufficiently protected by requiring that any corporation desiring to take advantage of the conditional grant of tax exemption show that it has paid its employees (apart from their share of profits) either (1) the average amount per employee paid by it in the preceding period of, say, ten years (excluding bonuses or shares of earnings), or (2) the minimum wage per employee fixed by the local Wages and Hours board for the taxable year, whichever is higher.

The recommendation of a ten-year base-period for computing average wages and salaries (normal or basic) suggests the need for special treatment of corporations which have been in existence less than ten years. To encourage the establishment of new ventures and to give them time to reach their stride, the tax to be imposed (or forgiven) in the first year of corporate life should be only 10 per cent of the normal tax; in the second year 20 per cent, and so on. Thus on the basis of the figures used above, a corporation in its first year would pay a tax of 6.6 per cent of its net income, or receive exemption if it had distributed 3.3 per cent to employees and 3.3 per cent to customers.

The proper protection of the employer requires that wages and salaries paid during the taxable year (exclusive of shares of earnings) in excess of the amount required to be paid as a condition of tax exemption, be treated as an advance upon or the whole, as the case may be, of the share of profits accruable to the accounts of the employees. If there remains a net excess over and above the share so computed (including at this point any partial distributions of earnings made during the taxable year), such net excess should be carried over into the next taxable year as a payment on account, unless the corporation elects to recover the amount in cash from its employees (and only to the extent that it succeeds in doing so).

To furnish the additional teeth necessary, there should be complementary legislation forbidding excessive demands of this character and granting to the employer the right to recover back the excess by civil action.

The actual distribution of the share of profits among employees would be upon a percentage basis, in proportion to compensation otherwise paid, just as is done at present under profit-sharing plans. Since management would be identified with labor for the purpose of sharing the profits attributable to employment, it is essential that there be a safety device to prevent management from getting a disproportionately large fraction of this share of earnings. A careful examination of the proposals thus far made will disclose, however, that such a device is inherent in them. The prohibition against paying a higher salary or wage (basic) than the higher of the corporation's previous average payment or the minimum wage established for the period, and the provision for the recovery back of any net excess, apply equally to the corporation's president and to its janitors.

No longer would the president be able to limit his salary to $50,000 and then accept with reluctance from a grateful board of directors a bonus of $1,000,000 at the end of the year. For past average payments are to be computed, it will be remembered, without including bonuses or shares of profit. If the president should try to rectify this situation by raising his salary he would run afoul of the same provisions. All of which demonstrates that for the purpose of awarding to employees their just due, the president is simply one of the employees. With all due respect for his considerable and comparatively scarce talents and the high market prices they have heretofore commanded, that is exactly what he is.

Lest this aspect of the proposed act lead any particular corporation to reject the grant of conditional exemption, the right to deduct wages and salaries as expenses should be limited to the amount required to be paid as a condition of tax exemption; any excess payments to be treated exactly as they would be if the corporation had claimed exemption for the

year. With this temptation eliminated, there can be no serious question but that every corporation having a net profit would elect to divide 66.6 per cent of it between its employees and its customers. In any case of a so-called "one man" corporation (virtually the entire stock held by a single individual) it would be to the direct financial advantage of the one man to comply with the formula and claim exemption. For an increase in his personal compensation would diminish by the same amount the stock dividend otherwise declarable and would eliminate altogether his employment dividend. In any case of a corporation in which the president's common stock interest was too small to deter such action, the remaining stock interests would be substantial, and the injury done to them would certainly provoke a stockholders' suit against the president.

The proposals above are applicable only to corporations which have realized a net profit in any given year. The program does not apply to enterprises conducted by partnerships or individuals, or to corporate enterprises in any year in which no net profit is realized. The reason for limiting this scheme to corporations is that they are dominant in our highly mechanized, industrial economy. Corporations have the largest payrolls, are the big producers and distributors of goods and services, the controlling influence in all the important markets except the agricultural. If impediments to their continuous successful operation can be overcome, the economic crisis as a whole will be largely dissipated. Noncorporate enterprise will adjust to the new patterns as it has, perforce, conformed to the established patterns of the past and present. Only agriculture presents a problem which may require special treatment.

Corporations not earning a net profit in a given year will not be affected, for that year, because of the nature of the plan itself. Any corporation finding itself in this position over a period of years either (a) is on the ragged edge of insolvency or (b) is an extremely small undertaking conducted on a subsistence basis by one or two individuals for whom

the disadvantages of incorporation outweigh the advantages. Neither situation needs to be reckoned with. Clearly a corporation chronically without profits plays no significant part in the economy.

The mechanical labor involved in keeping the records necessary to effect annual distributions of trade dividends to very numerous small customers, and the probable impossibility of locating many casual patrons whose trade has been on a cash basis, may be put forward as a practical objection. Such an objection, though limited in scope, is sound enough to indicate the desirability of a provision permitting remittance with the tax return, for deposit with the Treasurer of the United States for the benefit of unknown or unlocated customers or former employees, of the total of all employment and trade dividends that could not be disbursed prior to the tax return due date. The identification of cash customers is a matter of mechanics pure and simple, and can readily be worked out by each concern for itself. "Green trading stamps," cash register receipts, and the like, can easily be adapted to the purpose.

What might appear initially to be a formidable difficulty is the probability that the stockholdings of executives and employees will be, at the outset and perhaps permanently in some instances, heavily concentrated in the upper salary and wage brackets. It is true that such concentrations might persist for considerable time and that, in the interest of bringing about maximum coalescence of the capital and labor elements within every corporation, it is highly desirable that the voting stock should be distributed in approximately the same proportions as the compensation for personal services. But the problem is not susceptible of treatment by coercion or by any form of inducement which discriminates as between categories of personnel on the payroll. There is reason to hope that it will gradually be solved through education of the workers. Its existence in the meantime, however, is the essential reason for recognizing, in dividing annual profits, the employment dividend as distinct from the dividend on stock.

Without such a distinction, maldistributions of profits would continue as at present, though not to the same degree because of the trade dividend feature. With the employment dividend firmly established, even heavy concentrations of stock in very few hands could not upset or disturb the three-way division of earnings in the proportions shown by experience to be proper. The proportions will always be determined according to the three economic factors of ownership, employment and consumption. These remain constant irrespective of changes in the number, identity or relative interests of the individuals in each category.

No doubt many other objections to the proposals could be anticipated. Answers to them would go far towards clarifying further the proposals themselves. It seems convenient, however, to postpone such a discussion until the program, thus *far set forth only in a basic and abstract statement, has been* illustrated by applying it to the specific situation of our imaginary automobile company.

XIII

Illustrative Application of the Theory

TO VISUALIZE the practical operation of these recommendations, let us see how they would have affected the operations of the hypothetical automobile company examined in Chapter XI, if the revised income tax laws had become effective in 1928. Eventually, of course, the vertical trust which our automobile concern actually is, and its surrounding empire, would have been split up into its constituent corporate members. But this would not have been accomplished in the first year of the new law's application. We may therefore consider first its effect upon the crucial matter of wages and prices, reflected in the distribution of profits.

The saga of the automobile business begins on the land—in the mines, the forests, the rubber plantations, the sheep ranges, the farms raising cotton and soy beans. In some instances the basic raw materials are produced by corporations, which would be subject to the formula if located in the United States. In other instances the primary producers are individuals, not subject to the formula in their individual capacities but subject in their collective capacities if they market their wares through sellers' cooperatives. In any event, the first corporation to appear in any sequence of transactions passes along not only its product but also one-third of its net earnings for the year, if it has any net for the year, to its

customers; and another third of its profit to its employees.

Pick steel as one raw material for illustrative purposes. The automobile company buys all of its steel requirements that it can from the steel company which is a sister enterprise in the financial-industrial empire. Probably the steel company obtains its iron ore from a subsidiary iron mining company. The ore and the finished steel are transported by the industrial railroads also included in the empire. So, the iron mining company pays one-third of its profit to the steel company, its only customer, and divides the second third among its employees. From the railroads which carry the ore and the steel either the shipper or the consignee, depending on who pays the freight, receives his proper proportion of the stipulated one-third. The railroad employees receive their one-third. The steel company passes along one-third of the profit attributable to its purchases to the automobile company, and the second third to its own management and labor.

At each subsequent stage of fabrication and distribution the process is repeated. For determining and paying employment and trade dividends, it makes no difference whether or not two or more corporations are linked together in a vertical trust, unless the books are set up in such a way as to show no profit to any subsidiary corporation. In this event one-third of the net profit of the corporate parent would be divided among all the employees of the trust, irrespective of which particular subsidiary each one worked for, just as if the whole family were one corporation. Trade dividends in such a case would be limited to the customers of the combine as a whole.

In this train of events, services, as well as transportation and commodities, are involved. These services will include, among others, those rendered by banks, insurance companies and advertising agencies. Banks serve in accepting deposits and lending their depositors' money. Both depositors and borrowers are customers of a bank and both will share in the profits of the annual operations (if the borrowers pay in full what they owe). The bank's employees will too. Purchasers

of insurance policies are patrons of the issuing companies. The effect upon them will be partially to "mutualize" them, unless they are already mutual from long-standing choice, in which event the formula will not affect their operations except to increase the compensation of their employees. Advertising agencies will comply with the formula, and so will the advertising media.

When we get down to the actual manufacture of the automobiles, we are only two steps away from the ultimate consumer. The cars will move to the retail dealers who hold "franchises" from the manufacturer. One-third of its profit for the year will follow. After the ultimate purchaser buys his car, he will get the proper trade dividend if his supplier has prospered. He will even get a small refund or credit from the finance company which holds his chattel mortgage or conditional sale contract.

Under the formula the distribution of the net earnings of the automobile company for 1928-1929 would be very different from what they were assumed to have been in the absence of the formula. The net earnings were $210,000,000, of which the preferred stockholders received $7,200,000 as a preferred dividend, the common stockholders got $70,000,000 as a regular dividend and $56,000,000 as an extra dividend, $16,000,000 was paid to labor as a bonus, $15,000,000 to management as a bonus, and $36,800,000 was transferred to surplus.

The total amount to be distributed under the revised income tax law would be greater than $210,000,000 by the amount of the federal income tax actually paid in 1929 but not payable under the scheme we are considering. The amount of that tax, at 1928 and 1929 rates (assuming the earnings to have been allocable equally between the two calendar years), would have been $24,150,000. Starting, then, with the figure of $234,150,000, our formula would have required the payment of $78,050,000 as employment dividends and $78,050,000 as trade dividends before anything would become available to the preferred and common stockholders. By cut-

ting down the transfer to surplus to $18,350,000, $52,500,000 could have been disbursed as a common stock dividend, with no extra. In the eyes of the common stockholders, this amount would have compared very unfavorably with the $126,000,000 actually received. But the common stock has a par value of only $10, upon which a dividend of $1.50 per share is nearly 21½ per cent. The stock market quotations of it at around 90 were, as the event proved, vastly inflated.

Then would come the benefits provided by the formula for the automobile company, consisting of trade dividends on its own manifold purchases, ranging all the way from steel to advertising. In the aggregate these dividends would be sizable. They could be used to meet surplus requirements, or as additional working capital, or simply held as a free asset. Being a partial return, or rebate, of the costs of doing business during the preceding year but not received until after the close of the year, they would not constitute income for distribution purposes or for any other purpose until the year in which received. The receipt of that much income would be a pleasant event with which to start the new year.

The effects of the proposed distribution formula cannot be traced in detail throughout the entire economy. The illustration should suffice to indicate that it would introduce into the wage-price mechanism the flexibility it has always needed. The second half of the program, namely, the restriction of the privilege of owning voting stock, should complete the renovation of capitalism by reintroducing into the economy the vital principle of competition. Without competition true stability is impossible, and the spurious stability of finance capitalism turns into a time bomb. Let us consider separately the apparent tendencies of our theory towards flexibility on the one hand and true stability on the other.

Substitution of automatic and refined controls over wages and prices for the present bad-tempered haggling over wages and star-gazing over prices would obviously have far-reaching

consequences. Of these, four can be predicted with confidence:

1. The prospect of a downward adjustment of prices to the extent justified by the operations of the current year should stimulate demand by freeing it of worry over the fairness of prices. Bargain hunters would still shop with a view to finding the source of supply with the most promising combination of low initial prices and high profit (trade dividend) prospects. But such a situation would be a great improvement over the one with which we are all too familiar, in which all the prices are virtually identical and seemingly higher than they need be. Indeed, the new situation would strongly resemble that prevailing at a time of vigorous competition, the only one in which bargains are to be found. The distribution formula would have a tendency to force competition upon corporate producers and distributors, however reluctant, although it would take the curious form of *ex post facto* competition in terms of net profits rather than prices. It is doubtful that the formula could go the whole way towards restoring competition, but any tendency it would have in that direction would be highly salutary, because it would make for expansion of demand and hence of supply.

2. The good judgment or good luck of some links in each chain of transactions would partially offset the bad judgment or bad luck of the links lower down. The formula would thus improve the resilience of all productive-distributive sequences in which corporations figured prominently, enabling them to bend before the winds of adversity without breaking —at least to do more bending and less breaking than we have seen in past crises.

3. The winds of adversity would themselves be tempered if not wholly stilled. For the formula would operate to preserve a healthy balance between that portion of the national income which will mostly be reinvested, and that portion which will be mostly spent on consumer goods. The net earnings of corporations are the principal source of savings, i.e., of income which will be reinvested, and are to be contrasted

with earnings from personal services in the form of wages, salaries, fees or commissions, the principal source of consumer spending. To the extent that corporate earnings are passed along as dividends to stockholders, they reach the wealthier elements of the population, whose spending tends to fall short of their incomes.[1] A person may buy four pairs of shoes a year instead of one if his income rises from $2,500 to $10,000. But he is not likely to buy more than five or six pairs if his income goes on up to $1,000,000 or more. What he does not spend he saves, i.e., reinvests.

Whatever the ideal ratio between saving and spending may be, some ideal must exist at any given moment, though it may not be a constant. If saving increases faster than consumer spending, as it did during the 1920's because of increases in *both productive and speculative profits, a boom is indicated,* and trouble, rather than prosperity, is around the corner. It used to be considered that a net increase in savings over consumption would operate merely to divert productive resources (materials and labor) from consumer industries to capital goods industries, leaving undisturbed the flow of wage payments, credit, etc. The underlying assumption is that entrepreneurs will avail themselves of a plentiful supply of funds seeking investment in the capital markets to increase plant capacity or to establish new enterprises; though why they should do so at a time when consumer demand is declining in relation to saving, and the prospects for marketing the output of the enlarged capacity are therefore darkening, is cause for wonder.

The experience of the 1920's shows that nothing of the sort happens. What did happen was that out of investment funds available in 1929 (to pick just one year for illustrative purposes) amounting to around $15,000,000,000, only about $9,000,000,000 found their way into corporation financing. Of this sum, not more than $5,000,000,000 was utilized to increase productive capacity. (The remainder was absorbed by

[1] See chart on p. 153.

refinancing, by the acquisition of pre-existing independent plants and by the building up of huge surpluses and reserves.) Most of the remaining investment funds not taken by corporations were dissipated in part in foreign loans, many of which were never repaid, and in part by bidding up the prices of outstanding security issues, either directly or indirectly through "investment trusts." Actual productive output (as well as the construction of new plant capacity) was closely tailored to *existing* consumer demand, chilled as it was by the maintenance of artificially "stabilized" prices.[1]

The effect of our formula upon the investment-consumption income problem, as high-lighted by the disastrous experience of the 1920's, would clearly be constructive. The formula would hold in check an upward thrust of reinvestment income by subtracting two-thirds of the total in the first instance. It then would restore the balance by adding one-half of the amount so subtracted to income from personal services and by apportioning the other half among all spenders. The rising cost of living and of doing business would thus be slowed down. At the same time the rise in purchasing power would be speeded up. Because corporate net earnings constitute the chief source of savings, the proposed formula, in searching them out, would be reaching among the roots of depression before they could put forth their evil blooms.

4. Finally, the operation of the distribution formula would make available to businessmen annual statistics disclosing: (1) the segment of actual consumer and other spending in the year past, accounted for by corporation gross receipts; (2) the relation of that amount to the total basic wages, salaries and commissions paid out by corporations; and (3) the increments to purchasing power available in the current year, accounted for by employment dividends and by trade dividends. Considered as absolutes, such figures might not be very useful. In their relations to one another and to dividends on stock

[1] *The Formation of Capital*, Chapter X, pp. 136-154. Washington: The Brookings Institution, 1935.

they would have considerable significance. In the second and subsequent years of operation under the plan they would be more helpful still, for comparisons could then be made. The existence of a trend, and, given appropriate breakdowns, its scope and direction, would become apparent at an early date. Its progress could be continuously charted if, as might well happen, partial distributions to employees and customers on account became the fashion, much as quarterly stock dividends have already largely superseded annual dividends.

Increased knowledge of the amount and make-up of future purchasing power would greatly aid producers and other entrepreneurs. They would be relieved of the impossible task of estimating to what extent segments of purchasing power withheld from labor or withdrawn from the customer would again seep back to a demand level, instead of remaining at the investment level, where they are apt to cause inflation. Uncertainties would still exist. But businessmen would start their calculations each year at the point of estimating the particular fractions of markets of fairly well known strength they might reasonably hope to capture. They would not have first to speculate about the strength of the markets themselves. Thus the margin of probable error for even a single judgment would be substantially reduced.

We have already considered the necessity of dispersing the concentrations of capital which have grown up under finance capitalism, in order to diversify the risks of mistaken judgment. It may now be suggested that there is no need to alter the fundamental pattern of business organization; the objective of leveling the business cycle would be accomplished by the distribution formula alone.

Necessarily involved in any such conclusion would be the following assumptions or assertions: (1) that, given the distribution formula, the innate tendency of large capital aggregates to stabilize prices at high levels would lose its power

which would be forced upon even the largest combines in terms of *net* prices (initial prices later reduced by trade dividends) would be just as efficacious in stimulating demand as is orthodox competition in terms of *quoted* prices (which are both initial and final as business is presently conducted). Such reasoning has a superficial plausibility, but it is specious. The exposure of the fallacy will develop four reasons why the principle of employee-ownership, in lieu of finance-capitalist control, *in addition* to the principle of a scientific distribution of corporate profits, is essential to the theory of democratic capitalism.

1. What I have called *"ex post facto"* competition, in terms of *net* prices, presupposes that transactions in the required volume will take place in the first instance, and necessarily at the *initial* prices. If, therefore, the great corporate-aggregates were left free to pursue their old flair for maintaining prices at excessive levels, consumer demand, though perhaps stimulated by the hope of trade dividends, would nevertheless remain weaker than it would have been if conventional competition in terms of quoted prices had also been restored. If an individual can raise only $1100 with which to buy a car but the price of the car is $1200, he cannot buy, even though he has reason to believe that early in the following year he would receive a trade dividend of $100. The maintenance of pre-existing price structures, therefore, would leave the "one-third of the nation [which] is ill-fed, ill-clothed and ill-housed" right where it was before—unless, in the fullness of time, it came gradually to be absorbed as labor in the slowly expanding industrial sectors. Any untoward diversion into industry of man power from the nonindustrial sectors, such as agriculture, would introduce new distortions, giving rise to new problems. Meanwhile, in view of the probably slow rate of absorption under the circumstances supposed, there would be plenty of time for a crisis to develop in the sectors occupied by the underprivileged one-third, leading to a general depression.

The dangers to be apprehended if price stabilization con-

tinues are, if anything, greater than I have pictured them. There is a substantial prospect that the very adoption of a formula for the distribution of net earnings would prompt the captial combinations not merely to maintain pre-existing price structures but actually to raise them, in an effort to protect the profit moving to capital. This thought was first advanced to demonstrate the importance of so fixing the percentage of profits allocable to investment as to safeguard its legitimate needs. Even with a distribution formula scientifically calculated to meet this and all other needs in an optimum way, the temptation to drive prices up would still exist and very probably, in some measure, would be indulged. In such event the full benefit of the distribution formula would not be felt until the recapitalization requirement operated to dissolve the combinations and thereby restore the basic conditions of conventional competition: as large a number as possible of mutually independent units as nearly equal as possible in size and resources.

2. The efficacy of the distribution formula to accomplish its appointed task would be vitally affected by the patterns of organization in the economy. If they remain what they have been under finance capitalism, a major fraction of the most significant economic judgments will still be accounted for by relatively few individuals. Thus identical and simultaneous errors of judgment—of which a decision to stabilize prices at higher levels would be a prime example—would not be rectified by the distribution formula, because it would be prevented from operating by the ensuing crisis. There being (in short order) little net profit anywhere, there would be virtually nothing to share either with employees or with customers anywhere. The situation would be what it would have been apart from any such formula.

3. Quite apart from gross errors of judgment, the distribution formula, though calculated to reduce the likelihood of significant error, cannot eliminate it altogether. Since there is no way of inhibiting human mistakes absolutely, the best that can be done is to move as far as possible in that direction

by substituting a multiplicity of little judgments for the few big judgments. The result, though less desirable than the unattainable ideal of concentrated accuracy, would be far preferable to the recurring experience of concentrated inaccuracy.

4. Last but far from least, we must remind ourselves that the dispersion of finance-capitalist concentrations is motivated by the desire not only to remove an obstacle from the path of economic progress, but to insure that that path will actually be traveled as rapidly as possible. The latter purpose can best be furthered by vesting control of the instruments of production in the persons of all those individuals who are actually engaged in producing. The underlying thought, once again, is not a preconceived idea of social justice. It is merely that the economy would work better for the good of society as a whole under such an arrangement. Its virtue would be both positive and negative: positive, in improved morale and efficiency of all grades of salary and wage employees; negative, in the elimination of strife between capital and labor, heretofore inevitable but very costly.

XIV

Recapitalization; Objections

WE COME, finally, to the recapitalization problem that would be created by limiting the holding of the voting stock of a corporation to its full-time employees.

The device proposed for accomplishing this result is a special tax to be imposed upon the income realized by an ineligible taxpayer on account of his (or its) ownership of the voting stock in question. This tax would be at a rate sufficiently high to discourage the retention of the stock by rendering such ownership uneconomic.

In the case of a natural person, the problem is very simple. A tax rate either flat or graduated upward according to the number of years such stock had been held after the expiration of the suggested grace period, would apply to the dividends declared upon the stock, even though they had already been included in the taxpayer's gross income for tax purposes. There can be little doubt that the taxpayer would elect to sell the stock to the issuing corporation, or exchange it for nonvoting stock or other securities. He could afford to keep it only as long as no dividends were declared upon it; but in such case he would want to dispose of it.

In the case of a holding company the problem would be more complicated, because the books of a corporate-aggregate are sometimes set up to show no profit to the subsidiaries, and hence no dividends to the parent. However, in such situations the parent nevertheless realizes, as a part of its income, a return actually earned by the subsidiaries. The corporation income tax law could compel an apportionment, as between

parent and subsidiaries, of such unitary income and treat the portions earned by the subsidiaries but realized by the parent as the equivalent of dividends declared upon the subsidiaries' voting stock. If this were done a parent corporation, like an ineligible individual, would be economically compelled to sell or exchange the voting stock of the subsidiaries.

The steps required to recapitalize a major fraction of the industrial plant of the country would add up to an immense chore. Sufficient time would have to be allowed. Given the necessary time, however, the chore would not amount to an insoluble problem. To minimize speculation, all issues of voting stock listed on stock exchanges would have to be delisted as soon as the revised income tax laws were passed. Then, after canvassing the demand for voting stock among the managers and employees of each corporation, its executives would tentatively determine a new capital structure, and would make offers to the ineligible owners of voting common to exchange their shares for nonvoting common, or preferred, or bonds, or debentures, or various combinations with or without some cash. In the light of the response adjustments would be made and the new capitalization would be put into effect. Each such task would have to be handled separately. But there would be enough common denominators involved to permit extensive "boiler plating," or adaptation of one solution to similar requirements elsewhere. So the undertaking would not be as appalling as it might seem at first glance. Fortunately, the technical details are well within the demonstrated competence of experts in corporate finance, with whom we are plentifully endowed.

One general observation on recapitalization is worth making. In fixing the voting stock base of each new capital structure, care should be taken to provide for a sufficient number of shares over and above the immediate indicated demand to allow for a gradual increase in demand on the part of the lower wage-earning categories of workers.

We have already noted the probable disparity at the outset in stock distribution as between the best-paid and

lowest-paid officers and employees. It is likely that this disparity would be greater than could be accounted for by differences in individual financial resources, especially in view of the availability of "employment dividends" and of conventional dividends on the stock being purchased. An unbalanced distribution would be explainable upon the ground that the humbler wage earners have not been accustomed to owning stock in the past. It would take them considerable time to learn why it is in their interest to begin. Because it is reasonable to believe that they would learn eventually, future demand should be provided for by authorizing more common shares than would be spoken for in the beginning; the excess to be issued as and when ordered. Similarly, stock repurchased by the corporation from separated employees and from the estates of deceased employees should be held in the treasury, for reissue to new eligible purchasers or to old employees not already owning their full quotas.

A number of criticisms are to be anticipated, both of the democratic capitalist program in general and of its recapitalization feature in particular. It will be convenient to dispose first of the objections relating to recapitalization.

It may be contended that the necessary implications of the modern technology of mass production are all in the direction of integrating one process with another; and that production managers have demonstrated their ability to coordinate a myriad complex operations—more, indeed, than finance capitalism thus far has given them the opportunity to coordinate, as witness the enlarged scope for their talents afforded by the managerial scheme of organization. (Privately employed managers would probably not allude to the managerial form of organization. I have inserted the reference because it logically belongs to the argument, and indicates its drift.)

Extensive coordination is implied by mass production techniques, both in the sense of making it possible and in the sense of making it mandatory if the optimum capabilities of

mass production are to be realized. The question raised, however, is one of degree. If the position taken is that *all* steps from extraction to final distribution must be coordinated in order to achieve the maximum advantages of present-day methods of production, it is altogether too broad. Such sweeping coordination *in a production sense* has never been accomplished, either under finance capitalism or under managerialism, and obviously never could be. No individual manager or group of managers can possess the technical knowledge required to set up and supervise such diverse operations as mining iron ore, operating railroads, running blast furnaces, open hearth furnaces, strip and sheet mills, foundries, engine factories, automobile frame and body assembly lines, etc.

What actually happens is that managers expert in mining supervise the mining, experienced railroaders take care of the railroads, men who know steel produce steel, and so on. The alleged coordination of their variegated activities does not take place at the production level. It takes place at the bureaucratic level. Production schedules are harmonized in conformity with an over-all directive which seeks to realize a maximum volume profit under capitalism, or the current chapter of somebody's Four or Five Year Plan under managerialism. Neither the schedules nor the directives have anything to do with the technical problems of production. They have to do, under capitalism, with finance.

If the objection concedes this and merely reflects a fear that, if financial integration is dissolved, production managers will have less scope than they now enjoy, as individuals, the fear is unfounded. Disbandment of vertical trusts and empires merely restores independence to the constituent units. If those units are large, they will remain large. If they are small, they may remain small if they choose to do so. If they prefer, they may grow so long as they stay within the confines of a single corporate entity. There are practical limitations to the number and variety of production operations that can be conducted within a single corporate organization.

It is these and only these which the program under discussion imposes as determinants of the size of units. They are no different in character and need not be in detail from those which now exist.

In adopting the pattern of "little business" as the universal ideal, the plan does not contemplate that "little" should be read literally in a physical sense. Half a dozen or more separate plants in as many cities often are owned and operated by a single corporation. This arrangement would not be affected. What would be prevented is the stringing together of two or more corporations on a single financial chain—a chain which, besides being a potential menace, is quite unnecessary and usually irrelevant to the business of production and distribution.

So much for criticisms founded on considerations of production. As to finance, it may be urged that the elimination of the practice of customer-ownership at levels above consumption would impair operating flexibility in terms of costs of materials made possible only by the vertical trust type of integration. To the extent that such an objection is genuinely *concerned with the costs of materials and supplies*, it raises no special problem. Abolition of customer-ownership would eliminate cost rebates in the form of stock dividends now received by parent corporations from wholly-owned subsidiaries. But one-third of the net profits of the ex-subsidiary (or the fraction of it proportional to purchases) would be restored to the erstwhile parent as a trade dividend. More than that is not needed and should not be awarded, if the program as a whole is sound.

A second and, at first blush, more serious objection would be pointed directly at recapitalization. It would say, in effect, that capital in the amounts required for modern industrial and commercial operations of optimum unit size could not be attracted under a scheme which restricted the ownership of voting stock to employees and managers. If the point of such a criticism is that capitalization must rest upon a broad common stock base, it is not well founded in fact. Many capi-

tal structures rest on a narrow base of common stock, and consist mostly of preferred stock and bonds. If the point is that there would be an insufficient supply of capital if outside venture money were barred from voting privileges, the answer is twofold. Venture, if that is what is really desired outside, can be afforded by simply creating a new class of common stock without voting privileges. The desire for control cannot, of course, be gratified within the limits of the plan proposed but, if there is virtue in the plan, it ought not to be.

The answer to this part of the objection lies in the universality of the plan's application. If there is no longer any corporation control of which can be purchased by outsiders, the outsiders will either (a) have to content themselves with investments not carrying control, or (b) go to work on a full-time basis for corporations they desire to control, or (c) get along without any investments. Under no circumstances could a sit-down strike by private capital defeat the plan after it had become the law of the land. Were anything of the sort attempted, the same Congress which had enacted the law would authorize the RFC to break the strike by lending government money or buying preferred stock with it.

Returning now to possible objections to the program as a whole, we can readily see that they are likely to be divisible into two groups: (1) those which challenge the fairness of the scheme, and (2) those which question its practicality.

An accusation of unfairness would raise the overly subjective question of social justice, which I prefer to avoid in so far as it may pass beyond the severely pragmatic test of the greatest good of the greatest number. However, criticisms of unfairness sometimes can be converted into doubts as to feasibility. These may properly be considered here.

Prominent enough to stand at the head of any list is the charge that a scheme of distribution which would divide profits with employees and customers but throw losses in

their entirety upon stockholders would cause a flight of capital.

To this there is a better answer than to ask what haven in this inhospitable world capital could hope to find. It consists of the reminder that, now as always, capital shares its earnings with labor, yet bears all the losses. Every time an increase in wages is granted, ownership thereby makes over to its employees a larger amount from its expected gross income than it has paid from its gross already realized. It is true that under our formula a retroactive adjustment, computed on the basis of *net* earnings, would be substituted for an enhanced commitment out of future *gross*. But if we are right in believing that the enterprise would work more smoothly (and make more money) that way, it would be foolish to make a fetish out of mere bookkeeping and let it stand as an obstacle. Customer participation, it is true, is unorthodox; but again the justification is pragmatic. Moreover, business does sometimes reduce its quoted prices. We have seen that, whenever possible, this should be done for the sake of business itself. If so, it is surely "fairer," even by the test of a subjective standard, to confer the benefit upon the customers whose patronage made the reduction possible, than upon strangers who contributed nothing to the happy event.

There is an additional oversight involved in objections of this kind. It is forgetfulness that the proposed distributions to employees and to customers would be in *substitution for,* not in *addition to,* income taxes which business is accustomed to pay to the federal government. To say that it makes no difference to a concern whether it pays x per cent of its net income to the government or to its own employees and customers is an understatement. If it does the latter and so does every other corporation, as would be the case with our formula in effect, each corporation would receive thereafter from its own corporate suppliers trade dividends attributable to its own purchases. No similar windfall is returned by the tax-gatherer.

Such objections would probably be motivated very largely

by a too literal reading of the tax and distribution rate of 66.6 per cent, which we have used throughout. There is no *a priori* assurance, in advance of a careful study of the factors entering into the distribution problem, that the final rate would even approximate 66.6 per cent. Conceivably, a study might indicate a 10 per cent trade dividend rate and a 5 per cent employment dividend rate, with a consequent tax rate (if exemption is not claimed) of 15 per cent. Considering that corporations with incomes over $50,000 during the 1942-1945 period have been paying a tax of 40 per cent, and an excess profits tax besides, a lower rate under democratic capitalism would seem very attractive. The *principles* discussed in these pages should not be identified with the specific figures assumed to illustrate them.

Next is the possible contention that the proposed salary-wage basis (the ten-year average) is inflexible, and thus suffers from the weakness of all historical parities. The real point of such an objection is that, in certain circumstances, the ten-year average would fix too high a basic wage (or salary).

It is essential to distinguish between hourly wage rates and annual income from wages. Assuming that some of the established hourly rates are "too high" for the good of the economy (e.g., in the building trades), the same can hardly be said of the annual income those rates produce. For there has been much seasonal (as well as cyclical) fluctuation in the employments concerned. This is the circumstance chiefly responsible for the excessive hourly rates. If, as has been argued, democratic capitalism would stimulate economic activity and expand all sectors of production, cyclical fluctuations would gradually taper off and even seasonal fluctuations might be minimized. And it is the ten-year experience in *annual* (not hourly) earnings which is the measure in computing basic wages and salaries. As employment steadied, therefore, excessive hourly rates would decline.

Moreover, in the absence of the democratic-capitalist program, it is a practical certainty, for both psychological and

political reasons, that employment in the immediate future will be at rates not less, and probably greater in many cases, than those now established. Our formula would lower the *basic* annual wage and salary costs in all instances, for the average of ten years would take into account some lean years as well as some lush ones. The *hourly* rates would be still further reduced. The fact that there might be an aggregate increase in labor earnings in all cases in which profits were realized and employment dividends thus became payable, is cause for economic rejoicing rather than economic alarm. Employment and trade dividends together provide the best possible guaranty against the recurrence of depression.

Also in the "unfairness" category would be an objection that our program, in being limited to corporations, discriminates against them and in favor of noncorporate enterprise; which might have the practical effect of causing many corporations to dissolve into partnerships.

The affirmative reason for picking on corporations is that they, in accounting for approximately five-sixths in dollar value of total production, necessarily hold the keys to economic destiny. But there is also a negative reason for leaving partnerships and individual enterprises out of account. Obviously the corporation program could not be applied literally to noncorporate enterprises, since the legal attributes and practical circumstances of the two modes of organization are wholly different. It would be virtually impossible to develop a distinct but uniform program for individual and partnership entrepreneurs. They are usually very small operators and differ very markedly from one another in respect to the indispensability or quantity of employment, the scales of compensation for personal services established by custom or usage, and the ratio of these scales to the gross income of the employer.

It is quite unnecessary to make a direct attack upon maladjustments in the noncorporate sectors, even though they employ a larger number of workers than corporations do and pay some of the lowest wages on record. They would not es-

cape the indirect effect of the corporation program or reap any harvest from the alleged discrimination. As the rising level of prosperity under democratic capitalism expressed itself in economic expansion, any previous oversupply of labor would gradually be absorbed by the increasing demands of corporate industry and commerce. Very soon, therefore, noncorporate employers would feel the competition of corporate employers in the labor market. Inequities in the noncorporate wage scales would then quickly be corrected. Moreover, there would be an immediate benefit to noncorporate employees from the democratic capitalist program, consisting of trade dividends payable to them as customers of corporate distributors.

While a few corporations might dissolve in order to avoid the effect of the revised corporation income tax law, the general trend would be rather the other way, i.e., for individual and partnership enterprises to incorporate. The natural consumer preference for dealers from whom a trade dividend could be expected would force such action wherever practicable.

Passing now to the category of objections directed to the practicality rather than the fairness of the program, we may single out first the thought that a three-way split of corporate earnings might frustrate the policy, prudent and legitimate under some circumstances, of "plowing back" the entire net earnings into the business.

Much depends on the particular purpose contemplated by the "plowing back." If it is to make needed repairs to the plant, to replace worn-out equipment, or the like, the answer lies in the accounting methods employed by all prudent businessmen and recognized by the corporation income tax law. Depreciation and maintenance charges have always been allowed as deductions from gross income, and reserves set up within the permitted limits are not taxable. The net loss carry-over provisions of the law could stand some improvement, to permit bringing such allowable reserves up to full strength in a good year after a number of poor years, but in

general this aspect of the objection raises no difficulty. If the business has prospered even moderately and has been properly run, the funds required for maintenance and replacement *will be "plowed back" annually*, and *will not* be considered a part of the net income at all.

If the contemplated purpose is not replacement or maintenance but a capital enlargement (such as new construction or an addition to working capital), then, it is true, the financing, if internal, would have to come from current net income or previously accumulated surplus. The answer to this objection is that the problem would already have been considered in fixing the percentages of distribution under the law. Capital requirements must be taken into account in determining the percentage ownership should receive. A moderate surplus, tailored to reasonable needs in an economy which is expanding and not declining, is one of the capital requirements which would have received attention.

If the real point is that the employees, in their new role as voting stockholders, would insist upon maximum dividends on stock and therefore would vote down the creation of a surplus in the first place or its reasonable utilization towards expansion, then the objection is really to the effect that labor *is irresponsible, and incapable of equity ownership.* There is no real basis for such a blanket accusation.

If the psychology of the worker has seemed heretofore to be anti-capital, the explanation probably is that the worker, generally speaking, has not heretofore participated in either the privileges or the responsibilities of ownership. When an individual's circumstances change, his behavior and attitude patterns usually change to conform. Under a mature phase of democratic capitalism, a worker's circumstances would not differ in kind (though they would in extent of interest) from those of the corporation president. Even assuming that many workers would remain greedy and stupid, the chances are that these would have been too shortsighted to become stockholders in the first place. Among the workers who did become stockholders, a majority almost certainly could not

be mobilized behind any policy whose tendency would be to wreck the corporation.

It may be contended that the federal revenue could not stand the loss of receipts heretofore realized from the corporation income tax levy, and that democratic capitalism is impractical for that reason.

We shall consider taxation from the revenue standpoint in Chapter XX. Here it may be observed that such an objection would be political rather than economic. There is certainly no economic reason why the loss of revenue from the semi-hidden corporation income levy could not be made up by various forms of direct taxes, with substantial benefit to the political atmosphere. However, assuming that for some reason, political or economic, the Treasury could not forgo all of the revenue from the corporation income tax, our program does not absolutely require the full sacrifice. The principles we have been discussing would still be valid and could still be made to yield a substantial social return if, because of some *force majeure,* they could not be given the full scope contemplated. Partial, rather than complete, credit could be given on the income tax in return for the indicated distribution among employees and customers of the part forgiven. Democratic capitalism is not necessarily a whole-loaf-or-none proposition.

Finally, it may be conceded that the proposals thus far developed should go a long way towards mitigating, if not eliminating, the cyclical disturbances of the capitalist economy, yet not all the way, since technological unemployment would still be a factor to be reckoned with. There is merit in this observation. The solution of the problem, however, will require special help from the state of a kind not yet discussed. We must therefore postpone consideration of it to a subsequent chapter.

Still other possible objections can be anticipated. They also relate to particular phases of the discussion yet to come, and can better be handled in the appropriate context.

PART FIVE: DOMESTIC DEMOCRATIC CAPITALISM

XV

Composition of the Ruling Class

THE most significant feature of democratic capitalism is its treatment of the ruling class. It does not abolish the concept of a ruling class, as Marxist socialism does. It does not elevate to power a new ruling class, which occurs under managerial practice. Democratic capitalism most nearly resembles industrial capitalism in its pattern of economic organization. From the functional standpoint, however, its debt to the atypical techniques of employee-ownership, profit-sharing and consumer-cooperation, all of which matured during the finance phase of capitalism, is of decisive importance, because from it emerges the modification of the ruling class principle. This is the distinguishing characteristic of democratic capitalism.

The ruling class rests upon (1) right of access to the instruments of production and (2) preferential treatment in the distribution of the products. The *rule* of the ruling class, in a political sense, is a necessary corollary of its dominance in the economic sense. For a major preoccupation of any government, aside from the routine of preserving internal order, is to defend, support and expand the established eco-

nomic institutions. The rationalization need not be, and usually is not, economic. But a working economy is an indispensable condition to the pursuit of any other national aspiration, however lofty and seemingly unrelated. And the fulfillment of the underlying condition always results, albeit incidentally or even inadvertently, in the consolidation of the wealth as well as of the power of the ruling class.

Conversely, when a social order begins to disintegrate, the first clear sign is usually the loss or abandonment by the ruling class of its control of access to the instruments of production. Its attempt to retain preferential treatment in distribution notwithstanding the loss of the vital function which alone makes wealth or other form of special privilege tolerable, results ultimately in the overthrow of the ruling class, often by violence. That is what happened to the feudal lords, beginning around 1400. That is also what has been happening to the finance capitalists since 1917.

The current crisis is a novel one for capitalism. Not since it triumphed over decadent feudalism has the *bourgeoisie* had to meet a rival form of social organization as an actual going concern, rather than as a mere theory. Earlier transitions, though not altogether peaceful, were accomplished with the confidence born of the logic of evolution. The industrial phase of capitalism required only the enlarged opportunities provided by the industrial revolution to develop out of the mercantilist phase. The psychic stimulus was already present in latent form. Similarly, finance capitalism was, or appeared to be, merely the common sense answer to the competitive struggle initiated in the raucous era of industrial semianarchy.

But managerialism is *not* the answer to the aggravated business cycle of finance capitalism, except to those who are usually called "communists" or "fascists." To those others who deliberately rejected monopoly or the apparent safety of huge size based on centralized control, who sought efficiency as an answer to competition, who gained efficiency by democratizing their own enterprises and nourishing their

own markets without any outside inducement—to these pioneers in the capitalist tradition of adventure, managerialism is not an acceptable solution for the general crisis. The future of capitalism depends upon whether the voice of finance capitalism will continue to dominate until silenced by managerialism, or whether the quiet voice of the capitalist dissenters will be heeded in the little time that remains.

The theory of democratic capitalism proposes to adopt in part and adapt the remainder of the fruitful experience of the dissenters, as a general pattern of economic organization and behavior. It accepts the principle of the ruling class, but binds that class more intimately to the other classes in the economic process than has been done heretofore, except by the dissenters themselves on an individual basis.

The mainspring of economic activity continues to be the profit motive. The scope of that activity remains as wide as individual initiative can make it. It requires that the fruits of successful activity be divided proportionally according to the contributions to the harvest made by *all* (not just one) of the economic elements involved. Democratic capitalism merely insists that the interests of society as a whole take precedence over all lesser interests. In the long run there can be no distinction between the general good and the particular good. That, essentially, is what the theory preaches, in the light of what experience teaches.

The ruling class recognized by the democratic-capitalist theory is altogether fluid. The initial concentration of voting stock in the upper brackets of corporation personnel would mean *that the right of access to the chief instruments of production* would be controlled initially by varying combinations of executives and managers. Restoration of control to the executives would be reminiscent of industrial capitalism, and this resemblance would not be refuted by the admission to control of the manager group. For in so far as managers (as distinguished from executives) did assume or participate in control, they would do so in their capacity as stockholders, i.e., as capitalists, and not in their capacity as managers.

During the industrial phase of capitalism executives and managers were usually identical. Advances in technology have forced a functional separation of the two. Still quite frequently in little business the individuals who have the technical knowledge necessary to production are also the individuals who guide the enterprises towards a profit. In the largest of the little businesses, in which this identity can no longer be maintained, the social result under our theory nevertheless remains what it was under industrial capitalism. With stock ownership the only avenue to control, access to the instruments of production is still measured in terms of property relations—the classic capitalist formula.

However, the initial control by executives and managers need not become permanent. In proportion as the lower ranks of employees availed themselves of the opportunity to become stockholders, the executive-manager groups would need the support of an increasing number of rank and file stockholders in order to continue in office. All the voting stockholders, as full-time employees of the corporation, would be personally on hand at all times and actually engaged in carrying on its business. Therefore they would not be dependent, as are the scattered stockholders of the typical finance-capitalist corporations, upon information supplied by the executives. They would exercise their voting privileges in person. Ultimate power over the affairs of the company would spread through the roster of its personnel.

But again we must reflect that employee-control is not a radical innovation, but a mere incident of employee-ownership in the orthodox sense. The only change wrought by democratic capitalism in this respect is in assuring to all employees the right to become voting stockholders in the first place by restricting to them, collectively, the privilege of owning stock with voting power. No employee is compelled to become a stockholder. If he does not, then he does not participate in control. Although the identification of control with ownership is a departure from finance-capitalist practice, it is by no means a departure from capitalist theory. On

the contrary, it *is* the classic capitalist theory, from which finance capitalism, *not* democratic capitalism, has deviated.

Under democratic capitalism the present finance capitalists, as a ruling class, would disappear, just as the feudal hierarchy disappeared as a ruling class, when mercantilist capitalism attained dominant power four centuries ago. However, individual members of the finance-capitalist class could transform themselves into members of the new ruling class, as individual feudal lords turned capitalists in the mercantilist era. The necessary condition is that the individual finance capitalist withdraw from pure finance and resume full-time employment with one of the companies whose common stock he happens to own in substantial quantity. An appreciable number of finance capitalists could make themselves eligible to retain their holding of common stock in a single corporation. The practice has been very common, in big organizations particularly, to promote the top executive (president) to the chairmanship of the board of directors (usually a quasi-honorary position carrying only finance responsibilities). If the chairman did not desire to resume his old job as president or any other full-time job, he would incur no other penalty than that of having to surrender his voting shares for an equivalent value of preferred or other nonvoting stock, or bonds, or cash, or some combination authorized by the particular corporation's recapitalization plan. In no case would a finance capitalist or any other ineligible owner of voting stock be divested of his holdings without full compensation. Democratic capitalism is not a scheme for expropriation.

The same feature of democratic capitalism which restricts the privilege of owning voting stock to the full-time employees makes it possible, though not necessary, for labor to emerge as the ruling class. Simple arithmetic will demonstrate why. If all employees of a given company bought their full quotas of voting stock (blocks of shares proportional to their respective fractions of the pay roll), the executive and manager groups combined could not outvote the lesser em-

ployees if the latter were solidly arrayed against them. There are substantial variations in the distribution of pay rolls (and hence of stock, in the assumed case) depending on the nature of the business and the size of the company. But by far the majority of all corporations employ labor in such quantities that the latter's share of the gross pay roll exceeds the shares which go to the executive and manager groups. In any concern in which the property relations provided for by democratic capitalism were fully matured, there would always be the possibility of an alignment along functional lines which would give labor the decisive voice. In practice there would be little likelihood of a division along strictly functional lines. For the motivation inherent in earlier versions of capitalism (chiefly wage disputes) would be lacking under democratic capitalism. But a full understanding of the position of the ruling class in democratic-capitalist society requires us to take note of the fact that labor could assume control of nearly all enterprises conducted in corporate form, and could thereby become the ruling class.

That the very circumstances which create the possibility of control by labor would abolish most of the inducement to its exercise, at least along lines traditionally thought of as the labor point of view, is not a valid ground for criticism. Rather, it is a ground for jubilation if, as may safely be assumed, most reasonable men would regard the liquidation of the capital-labor class struggle through the abolition of its subject matter as a social advance. I am speaking now in terms of the most widespread and mature development. What this might mean would be as close an approximation as seems practicable of the socialist dream of the free, classless and international society purged, however, of the arbitrary and unrealistic elements which have prevented its consummation in Russia or elsewhere. Marx refused to acknowledge the contribution to the working economy made by capital and the capitalists. Democratic capitalism takes full account of it. Marx failed to foresee the rise of the managers as an indispensable concomitant to advances in technology. Our

theory makes way for them within the highly fluid capitalist structure. Marx insisted upon "the dictatorship of the proletariat," the assumption by the workers of control whether or not they desired it or were ready for it. Democratic capitalism opens to labor the door leading to control *by way of* stock ownership, leaving to labor full latitude of decision as to whether, when and how far it may choose to advance along the path, and affirming that labor is not entitled to control in its capacity as labor, or in any capacity other than that of majority ownership.

The extent to which labor may avail itself of the opportunities created for it is not important to the operation of the democratic-capitalist economy in a mechanical sense. Once ownership of all issued and outstanding voting stock by each employee group is accomplished, it makes no difference (unless from the standpoint of morale and other imponderable values) what the distribution is as between the individuals composing the group. A morale factor normally arises only when an individual is compelled to do something he does not want to do, or is prevented from doing something he wants to do. So it is hard to see how an employee's own failure or refusal to buy stock in the company which employs him could give rise to a problem, as long as there remain in *the treasury sufficient shares to cover his quota if he changes* his mind later.

There is nothing in the democratic-capitalist theory which smacks of either coercion or frustration. It treats labor exactly as labor must be treated if capitalism is to make any further pretense of social adequacy. It improves the lot of the individual worker through retroactive wage and price adjustments. It gives him a chance to become a capitalist without ceasing to be a worker. But his progress towards control of his company would be determined by the same factor that has always determined it under any form of capitalism—job advancement.

Some of these inferences as to the probable behavior of labor, as it approaches control through stock ownership, may

be challenged, particularly if labor continues to be organized on an industry-wide basis. Arbitrary tinkering with basic wage and salary scales (not the refined and orderly adjustments to be considered later) would be ruled out absolutely, under the revised corporation income tax law. Excessive lust for dividends on stock—to the point of endangering a corporation's existence—is also highly improbable, for the reasons stated in the preceding chapter. Yet it can be argued that the danger remains that a federated union organization occupying an entire industry would certainly proceed to dominate that industry, as by restricting production so as to raise prices. This would provoke retaliatory action by other unions dominating other industries, and there would ensue a battle between giant industrial monopolies.

This line of reasoning is more frightening than plausible. In the first place the policy supposed—restricting production and raising prices throughout an entire industry—would be the plainest conceivable violation of the antitrust laws, a prohibited conspiracy in which every official of every union and corporation in the industry would be equally guilty. It is true that the antitrust laws have not been too effective heretofore in breaking up monopolies or combinations in restraint of trade. But that is because finance-capitalist industry has been careful to avoid an outward semblance of monopoly. Hence the indictments have often been difficult to prove. But in the circumstances assumed above under democratic capitalism, the monopoly would be complete and self-evident. The toll of fines and prison sentences would be so impressive that such an experiment would certainly not be tried more than once, and probably not once.

If it be suggested that labor, once in the saddle, would see to it that Congress repealed the antitrust laws, or that labor juries would not convict labor defendants in antitrust cases, the answer is that industrial labor is only a minority of the adult population of the country. Moreover it would be divided in interest and opinion along industrial lines. Nonindustrial sectors could still dominate Congress on a major and

barefaced issue such as repeal of the antitrust laws. Disgruntled labor juries would be happy to convict labor defendants from an industry other than their own. And if there were only one industry in an entire federal judicial district (which is scarcely conceivable), "blue ribbon" juries could still be drawn.

If we modify the nightmare by excluding the industry-wide conspiracy directed by the industrial union leadership, and confine ourselves to sporadic, "wild-cat" conspiracies involving only a few corporations and their unions, the answer is competition by the nonconspiring units. Monopolistic restrictions are feasible only when monopoly exists. With only half or less of an industry participating, there would be no monopoly.

A third answer to the argument is composite. Labor control of industry, if it ever came about in a literally complete sense, would do *so* only gradually. Long before theoretical control was attained, the workers who had earlier become stockholders would have stopped thinking exclusively along traditional labor lines, and would have begun to think, in part, along traditional capitalist lines. This is not to say that labor stockholders would necessarily become antilabor in attitude. It is reasonable to suppose, however, that their attitude would fall about midway between the old-style labor and capital outlooks. This would be enough to spoil their amenability to rough-and-tumble labor tactics.

Furthermore, union leadership itself would have new and responsible jobs to perform under the new dispensation. It would require much greater finesse than has always been displayed in the past. We can safely dismiss as fanciful such aberrations of labor and can concentrate upon its more probable responses to an enlarged opportunity, which would also be a greater challenge.

XVI

The Position of Labor

IT MAY be argued that the fluid composition of the ruling class under democratic capitalism, a variable blend of capital and labor, points to the early dissolution of associations and organizations peculiar to the two classes while they remain distinct. Specifically and most significantly, it points to the disappearance of labor unions.

Labor unions, like other human institutions, will disappear when their appointed mission has been fulfilled or extraneous developments make them unnecessary. This general observation is based on historical experience. There is, moreover, a logical symmetry in the idea that the breaking up of the great combines of capital would or should be accompanied by the breaking up of the great combines of labor. The ultimate interfusion of capital and labor would put an end to both unions and "institutes." The history of labor unionism, its evolution from independent craft unions through federation in the A. F. of L. and the railway brotherhoods to vertical combines of labor on an industry-wide basis and federation in the C.I.O., (which parallels the rise of finance capitalism) suggests, by analogy, a reverse movement.

I believe, however, that the analogy is imperfect. Decentralizing control over capital might result in some decentralizing of control over labor also. But the principal change in the labor field would be the supplanting of craft unions by company-wide vertical unions, federated into industrial organizations such as the I.L.G.W.U., the U.A.W. and the U.M.W. There would be a continuing need, as far as can

be foreseen, for labor organizations, in no respect smaller than the local or company unions, and in most respects as large as the industrial unions now existing. That need would differ in detail from the one chiefly served heretofore. But it would remain equally cogent and its fulfillment would require approximately similar resources in trained personnel, administrative overhead and income. Briefly, the new need would be the optimum apportionment, as between various jobs in the respective industries, of the share of *gross* income to be awarded to labor.

Unions have devoted most of their effort to raising the wage scales applicable to the sundry jobs falling within their respective jurisdictions. They have taken into consideration comparative compensations as between two or more categories of jobs. The increases contended for, however, have always been at the expense of the employer. For this reason it was not necessary, from the labor standpoint, to achieve more than a rough justice as between one job and another.

Under democratic capitalism no increases could be obtained at the expense of the employer, except in the minority of instances in which a local Wages and Hours Board invalidated certain established wage scales by increasing the legal minimum because of a rise in the cost of living. Aside from these cases, and they would be comparatively few, any upward revision of any particular wage scale would necessarily be at the expense of the other jobs in the enterprise. For the formula embodied in the proposed income tax law forbids any increase in the basic average compensation per employee over and above the average of the ten years past (or the minimum fixed by the Wages and Hour Board, whichever is higher).

Accommodation of wage scales within an enterprise would therefore present a problem, in democratic-capitalist society, requiring far greater refinement of analysis and nicety of treatment than has been the case heretofore, when inequities have merely given rise to demands for increases in the disfavored categories, without corresponding decreases in the favored categories. Labor unions within each particular en-

terprise would be the appropriate agencies to initiate revisions where they seemed desirable. But facilities for the gathering of statistics and the services of trained economists in analyzing them, both beyond the reach of local or company unions but within the means of industrial unions, would be indispensable. The need would be continuing, because improvements in technology constantly affect existing jobs, create new ones and eliminate old ones.

The suggestion that labor unions would be the appropriate agencies to initiate revisions does not imply that they should have the final say. They have not had the final say in times past (although in recent years many capitalists have thought so), when the adversary party was always the employer. Under democratic capitalism, with the issue primarily of concern to two or more job classifications within the ranks of labor itself, it would be quite intolerable to permit the union to represent both sides of the case and also to decide it. Chiefly for this reason but partly because the employer and, more prominently than heretofore, the general public also have an interest in the maintenance of labor morale and efficiency, all proposed readjustments in wage rates should be submitted to a tribunal having appropriate judicial powers. The local Wages and Hours Boards, composed of representatives of capital, labor and the public, whose province it would be to fix wage minima on the basis of the local cost of living, should become the organ of government to handle this function. Personnel serving on the Boards, whatever the manner of their appointment or election and the length of their terms of office, should have the qualifications of judges. They should receive adequate compensation and be disqualified for any other employment, public or private, while so serving.

This would not convert every proposal for a wage adjustment into a lawsuit. Where no objection was raised by the workers, none would ordinarily emanate from the employer. Approval would be forthcoming as a matter of course. Where, however, the workers desired to protest, they would have an opportunity to be heard. If the right of workers to take

issue with their own union may be regarded as a potential threat to the integrity and ultimately to the existence of the unions, it may also be regarded as a strong inducement to the unions to view with utmost seriousness their responsibility to their own membership. Unions which already have such an attitude would encounter no real difficulty in adjusting themselves to their new role. Informal discussions within the union itself of comparative wage rates would normally precede any proposal for revisions. A proposal would normally be submitted to the membership for discussion and approval before transmittal to the employer and the Board. If such democratic procedures were followed, the opposition of disfavored groups would usually melt away in the course of explanation, debate, justification with or without compromise, and the final recording of majority opinion. Only unions which proceeded in an arbitrary or autocratic manner would have reason to fear internal revolt and ultimate dissolution. Any such organization would have no legitimate place in democratic-capitalist society. Its passing would cause no concern to any significant social group.

The internal distribution, among job classifications, of labor's basic income, would be only one, though a highly important one, of the economic responsibilities devolving to a large degree upon labor organizations under democratic capitalism. At least one additional economic responsibility looms large enough to be recognized. It is the representation of labor's interest as a whole in evaluating the proportions of net profit distribution initially adopted by the proposed income tax law, and in seeking from Congress such changes as experience may indicate. Collective effort by labor unions would obviously be needed to match the efforts in Washington of employer groups and consumer groups. The adoption of the percentages recommended or of any other percentages would greatly stimulate the activities of pressure groups, operating through lobbies, in seeking revisionist favors from Congress. This may be considered a fundamental objection. Brief reflection will indicate, however, that with full allowance made

for the persistence of self-seeking lobbies, the changes induced by the program would represent, in this respect also, a net gain over past and present practices. Pressure groups are nothing new in Washington. Every time Congress has under consideration a change in the tariff or the tax structure it is always moving towards a decision which will benefit some interests and injure others. Consequently such decisions usually reflect compromises, political rather than economic. It may be deplorable that this is so. But unless we are prepared to abandon democratic government and swing over altogether to the managerial techniques, there is no escape from the basic right of the citizen to present grievances and to petition for redress. For better or worse, then—and I think for the better—the practice of making economic decisions in an atmosphere of political competition is inherent in any democracy. The responsibility of Congress, to adopt and continually review the percentages called for by our distribution formula, would be no novelty. On the contrary, it would be distinguishable only in detail from the responsibility Congress has been carrying in tax matters throughout its history.

There is, however, a substantial basis for believing that this particular responsibility could be handled with less friction, and consequently with greater efficiency, than the long familiar business of enacting new tax laws or revising old ones. Heretofore the total number of interests affected by any general revision of the corporation income tax laws has been very large. The proper way of computing investment value for the purpose of determining excess profits; the allowance, and for how long a time, of a net loss carry-over privilege; the propriety, as to both scope and mechanics, of depletion allowances for oil, gas and mining properties; the whole field of relations between parent and subsidiary corporations: these, to name but a few, are questions upon which corporations and their lobbies in Washington split in a hundred different ways according to their size, the nature of their capitalization and of their business, their earnings records, and so on *ad infinitum.*

The program proposed by the theory of democratic capitalism would eliminate some of these questions and consolidate and simplify others. It would still be necessary to handle specialized problems such as depletion allowances for mining properties. But all questions revolving around the taxation of excess profits and the treatment of intercorporate relations in vertical trusts and combines would disappear. Instead of having dozens of corporation lobbies to deal with, Congress would have only a few, and these would find many common elements among their problems. There would be but one special plea, of concern to us, to be presented to Congress by the corporations, whatever their size, history, or business: enlargement of the net profit share to be allotted to ownership. Opposed to this would be two other special pleas: enlargement of the net profit share to be allotted to the employee and customer interests, respectively.

This brings us once again to a point made several times before. Under democratic capitalism the ownership and employee interests, as aggregates, would be merged when the provision restricting the stockholding privilege became fully effective; and on an individual basis, would likewise merge in proportion as employees took up their full quotas of stock. The consumer interest is substantially included within the other two—very substantially, if the dependents of corporation employees are included in the category of consumers supported by corporation employment.

The conflict of interests in the matter of distribution would be sharpest in the beginning and would decline continuously, if and as the experiment proved itself and approached full maturity in respect both to voting stock distribution and to the accumulation of exact knowledge concerning the relative importance of consumer demand in an expanding economy. In a state of literally complete maturity the conflict would tend to disappear. Whether an individual corporate employee received 20 per cent of the pay roll and owned 20 per cent of the voting stock, or received and owned only 1 per cent of each, it would make no difference to him whether the owner-

ship share of profit were 40 per cent and the employment share 20 per cent, or *vice versa*. What was withheld from him in the form of a dividend on stock would be restored to him in the form of an increased employment dividend, or the reverse.

In his capacity as a consumer of goods and services generally, he would not oppose too strenuously an upward adjustment of the customer share of profit sponsored, we may assume, by farm organizations or other spokesmen for interests not prominently associated with corporations. Increased trade dividends would put more money in the pocket of the corporation employee as well as in the pocket of the farmer. If the employee's dividends on stock or employment were thereby diminished to an even greater extent, the difference would be largely made up to him by increases in trade dividends coming to him as a patron of corporations other than his own, and by reductions in the prices of farm products and those of other noncorporate producers. In short, with democratic capitalism well established, the question of revision of the distributive shares under the formula would be approached more and more nearly in the serene atmosphere of scientific inquiry, with less and less interference from pressure groups.

Even before this millennium arrived, and while the jockeying for position and special favors yet continued, an enormous advantage could be anticipated in both of the spheres of conflicting financial interest—the internal conflict within the labor group, and the external conflict between groups. That advantage lies in the fact that the resolution of both types of conflict would *not* involve strikes or work stoppage in any form. It is not proposed to deprive labor of its right to strike. A strike would be an inappropriate expedient from the very nature of the circumstances. The adjustment of wage scales as between two or more classes of workers is almost entirely an intramural labor problem. Obviously a solution would not be advanced by a union's attempting to strike

against itself. Any strikes of this sort would quickly demonstrate their futility.

The external problem of interclass distribution has as its only forum the Congress of the United States. The way to bend a congressman to one's will, as labor unions well understand, is not to threaten a strike but to threaten to vote against him in the next election. A strike in such a situation would be harmful rather than helpful, since it would tend to antagonize the public and thereby strengthen the position of the recalcitrant congressman. The strike has been an indispensable weapon in the armory of labor and has probably gained for society as a whole more than it has cost. But there is no denying that it is costly—to labor, as well as to all other social classes. *Any rearrangement of economic affairs which* would reduce the need for strikes would be a distinct social improvement. This labor itself would freely concede.

Finally we come to miscellaneous activities most suitable for labor organizations to carry on, many of which are now conducted by certain industrial unions. Most prominent from the special standpoint of the theory of democratic capitalism is the whole broad field of adult education, particularly in respect to elementary economics pertinent to an understanding of stock ownership, corporation management, labor relations, and the like. Other facilities for adult education in the form of night lectures and extension courses are normally provided by state and municipal institutions. These should not be disturbed. They should, however, be supplemented (as they already are in some instances) by labor unions, because of the peculiar needs of the working man and woman and of the special confidence reposed by many workers in the judgment and program of the union leadership. Courses in business economics sponsored by the union but participated in by outside lecturers from educational institutions and from the management of the employer corporation itself, would go far towards consolidating the gains realized under democratic capitalism and in expediting their further expansion.

Likewise in the field of education is the vitally important matter of apprentice training. Here again the effort should be directed towards supplementing existing facilities, such as vocational high schools and on-the-job training programs in industrial plants. There is a definite and large place for union participation in the total undertaking. The understandable but shortsighted policy developed by some unions during the depression of the 1930's of closing the intake of new recruits must be reversed. The best way of insuring the reversal is to encourage efforts on the part of unions to set *their own standards of technical qualifications for membership*, and to conduct or supervise training designed to meet the standards set by themselves.

Labor unions have a legitimate stake in social security. Certain unions have already developed programs over and above the compulsory program of the federal government. Expansion of this idea should be encouraged. Eventually consideration should be given to the possibility of accepting a well-managed union program, or combined company and union program meeting minimum financial and administrative standards, in lieu of participation in the government program. This idea belongs to a well-advanced phase of democratic capitalism, yet it is worth noting here because of two values it would have, if practicable: first, further solidarity between employer and employee and among the employees themselves; and second, the gradual relief of the federal government of the burden (and opportunity) of carrying on an enormous insurance business.

The foregoing points are perhaps sufficient to document my belief that the need for labor unions would be as great under democratic capitalism as it has been. Some changes both in organizational detail and in activities, or in emphasis upon activities, are indicated. In terms of size, strength, resources and the requirement of enlightened and intelligent leadership, however, the net position under democratic capitalism should be considerably advanced.

XVII

The Position of Agriculture

AGRICULTURE has been a major focus of infection within a world economy sick in other respects ever since the First World War. The special nature of the problem has been indicated circumstantially by the chronic depression which began in this country in 1920 and (apart from the artificial stimulus of war) has persisted ever since, despite the prosperity in other economic sectors during the boom years. That the problem has been generally regarded as specialized is shown by the attempted treatments in both domestic and international spheres. All of these proceed upon the assumption that agriculture is isolated from the rest of the economy.

The domestic New Deal programs of the AAA are familiar. The first, declared unconstitutional by the Supreme Court, imposed taxes upon distributors and processors of foodstuffs for the purpose of paying subsidies to farmers for not raising more than stipulated percentages of their actual output of certain commodities during a base year or period of years. The second retained the prorating device but avoided the processing and distributing tax obnoxious to the Supreme Court by offering to farmers a guaranty (backed by the general revenue, not the proceeds of special taxes) of "parity prices" for approved quantities of production. Internationally, the United States became a party to various marketing agreements, with or without price features, covering wheat (1933 and 1942), coffee (1940), sugar (1937) and beef. All of these agreements are of the cartel type, apportioning the primary world markets among the primary producing na-

tions, and establishing quotas of production based on past consumption.

All these measures adopted a common approach to the problem of agricultural surpluses, which is to tailor production or distribution to a particular volume of demand. In accepting the history of consumption as a fixed basis for policy in regard to production and distribution, such techniques inevitably divorce agriculture from all other productive activities. They exclude the possibility of any future increase in demand. Demand for food always has been relatively inelastic, in comparison with the highly variable demand for manufactured goods. Consumption of food cannot fall below a certain minimum so long as organized society continues to function, and has not shown a tendency to rise above a certain maximum (not very far above the minimum), because even sharp increases in individual income totals are not reflected to a great extent in enlarged demand for food. All of this may be admitted without abandoning the central point, which is that any improvement in the *distribution* of income is certain to affect demand for agricultural products far more sharply than absolute *increases* in total income have done in the past. No other conclusion is possible, in view of the fact that "one-third of the nation has been ill-fed," and will refuse to continue in that condition if, by virtue of reforms such as we have been considering, it acquires the means to buy the food it has always needed.

Tying production and distribution to past standards of consumption may not be a valid ground of criticism *if* the agricultural problem may legitimately be viewed as one of overproduction rather than of underconsumption—that is, *if* agriculture may properly be handled separately and without regard to fluctuations in the cost-price structure and in the ratio of investment-consumption income throughout the economy in its entirety. If there is any merit at all in our discussion thus far, however, any such dichotomy is not justified. Adoption of the democratic-capitalist program or of any other system of reforms, would imply a repudiation of all

agricultural measures, internal and external, heretofore adopted, at least in so far as they have predicated controls of production and distribution upon an obsolete demand volume.

The wisest course would be to set at large the whole problem of agricultural adjustments for restudy in the light of the experience to be gained from economy-wide reforms. Neither the AAA program nor the international agreements have worked very well even within the framework of their own premises and objectives. Where the emphasis has been placed on the maintenance of prices (e.g. under the AAA) either as an end in itself or as a device for limiting production, production has been limited but the price scales have been artificially high, and have thus helped to choke off demand increases while burdening actual consumption with excessive costs. Where the emphasis has been placed upon the elimination of gluts in world markets by assigning production quotas, the effect has been merely to transfer the surplus problem from the international sphere to the domestic sphere. Production itself has not been cut down.

Actually the crisis in agriculture, though possessing some features peculiar to itself, is part and parcel of the general economic crisis. It will never be resolved satisfactorily without reference to general economic conditions. Indeed, the latter define the agricultural problem. Conceivably, a radical improvement in the industrial and commercial sectors of the economy could so stimulate demand for agricultural products that it would rise to the natural (i.e., uncontrolled) level of agricultural production. In such case, the special problem of agriculture would simply disappear, melt away in the general rise in living standards. Indirect benefits of much more modest scope, however, would have to be taken into account in determining how much of the agricultural problem remained for solution either at the domestic policy level or at the foreign policy level, or at both levels. The first step to be taken, then, is to grapple with fluctuation and disequilibrium

in their broadest manifestations. That is what the theory of democratic capitalism seeks to do.

The individual farmer, not being a corporation, would not divide his earnings with his labor and with his market outlet. But he would, as a consumer, be entitled to trade dividends on account of any purchases of equipment, materials or supplies he might make from corporations. As a member of a buyers' cooperative, he would be both co-owner and patron, and his share of the net earnings would approach what it had been before. There might be some initial reduction, however, due to the payment of employment dividends to the employees of the cooperative as a condition of tax exemption. In the long run the cut would probably be made up, through the trade dividends paid to the cooperative by its corporate sources of supply, and through increased efficiency on the part of the higher-grade employees procurable at better levels of compensation.

As a member of a producers' cooperative, the individual farmer would suffer a reduction of two-thirds of his customary distributive share through the payment by the cooperative of employment and trade dividends. It might appear, therefore, that the impact of democratic capitalism upon sellers' cooperatives would be disastrous to the point of extinction. Before jumping to such a conclusion, however, it must be remembered that the question is not an absolute one. It turns on a comparison of the situation of the cooperative with its producer-members and that of the commercial middleman with his independent suppliers.

It is true that in dealing with retail outlets, the competitive advantage formerly enjoyed by the cooperative over the commercial middleman would be destroyed if the latter is incorporated. However, it would remain true under democratic capitalism that the farmer selling through the cooperative would get the profit attributable to ownership. The fact that the size of that profit, resulting from a given volume of transactions, would be only one-third of what it had formerly been, would in no way affect the relative attractiveness to the

producer of the cooperative as a marketing agency as against the commercial middleman. The original purpose of the cooperative movement, to eliminate the middleman link in the economic chain of transactions between agricultural production and consumption, would still be valid and would still be served. The loss of the cooperative's present unconditional tax exemption privilege would not be a legitimate ground of complaint, since all forms of cooperative organization have heretofore disregarded the labor interest, and the sellers' cooperatives have disregarded the consumer interest. In an economy rectified in other sectors, there would be no social reason for suffering a continuance of disequilibriums in the wage and price policies of cooperatives.

But the indirect benefit conferred by democratic capitalism upon all farmers, big and little, incorporated, associated in cooperatives or operating individually, would have greatest significance. This benefit would consist of the heightened demand for foodstuffs and for agricultural products used in industry. It was suggested earlier in this chapter that the demand for agricultural products, heretofore correctly regarded as relatively inelastic, would be stimulated more strongly than ever before (except in wartime) through the introduction of such an economic program as that of democratic capitalism. Perhaps this point deserves amplification.

In the recent past the difference in consumption of agricultural products between years of prosperity and years of depression has not been so great as the difference in absorption of manufactured products and other commodities. Unemployed workers who could no longer keep up payments on home mortgages, automobiles, refrigerators and the like still continued to eat, although at government expense. Movements back and forth of millions of people from employment rolls to relief rolls did not make an enormous difference to the farmer. Neither did sharp increases in upper bracket incomes, since there is an obvious ceiling to individual demands for food, both quantitative and qualitative. There is, however, considerable difference between what and how

much is eaten by the president of a corporation and by its unskilled workers. Substantial raising of lower-bracket incomes would therefore make for a tremendous over-all increase in demand for agricultural, as well as for all other, products. If this has not yet appeared in the statistics, it is because there has been, as yet, no substantial raising of lower-bracket incomes, especially in relation to the cost of living, which is what democratic capitalism aims to bring about.

The problem of agricultural surpluses would not completely disappear through the introduction of democratic capitalism in the domestic sphere alone. But what remained of the overproduction problem ought not to be handled by the present "scarcity" method of maintaining artificially high "parity" prices for a reduced production. The procedure is inherently uneconomic. It holds out no hope of a normal solution since it encourages, within the quota limits, the continuance of high-cost production. It does nothing to encourage agricultural diversification, lack of which, farm economists agree, is one of the basic ingredients of the problem.

What is needed instead is a program under which a revamped AAA would offer to buy given quantities of stipulated crops not now being grown by individual farmers but within their capabilities. If the prices were sufficiently high to attract pioneer production, they might be too high for the "long pull," but ultimately, with the new distribution of production well established, they could be allowed to seek their natural level. The result would be: (1) the desired reduction in the quantities of the crops originally grown, without payment of a bounty; (2) the acquisition by the government, for sale in the open market, of crops not previously grown in sufficient quantities or at all, or not in the regions where they should be grown; and (3) a valuable practical lesson in diversification, by which all one-crop farmers would profit.

XVIII

Government versus Private Ownership and Operation

WHATEVER the degree of political democracy achieved within the past two hundred years, it is substantially greater than the degree of economic democracy realized. The discrepancy is not accidental. The philosophy of individualism which lies at the root of our society expresses itself quite differently in the two fields. Individualism in the political sphere means government by elected representatives, and hence a constantly recurring opportunity for self-assertion on an equal basis by all members of the electorate. Individualism in the economic sphere, though likewise implying an equality of legal opportunity to make or alter *commitments, is powerless to correct initial disparities in* individual resources. It is bound to sanction the inherent cleavage between proprietorship and nonproprietorship, however wide it may become.

Absolute economic equality will never be brought about so long as human beings continue to differ in their mental and physical endownments. The theory of democratic capitalism sets itself no such unattainable goal. Its employee-ownership feature, in apportioning control of the corporate instruments of production by uniting in each individual like fractions of the total voting stock and of the total pay roll, aims to wipe out invidious distinctions based on differences in economic function, but does not meddle with existing

inequalities as between individuals, measured by differences in pay. The voting privilege which is fundamental to political democracy would become increasingly a normal incident of corporate employment, and hence the vehicle for the introduction of democracy into the economic process. But the degree of democracy attainable within the framework of capitalism would always fall short of that prevailing in a political democracy based on universal adult suffrage, since the voting in a stockholders' meeting is by shares of stock and not by individuals. Clearly, therefore, democratic capitalism would not entail a reorganization of the political state. Its adoption would make desirable, however, certain changes in the activities of the state. In the long run it might exert an indirect influence in improving the quality of the state's performance, by making the public more discriminating at the polls and more critical of its elected representatives.

A discussion of the democratic-capitalist state will not involve the formulation of a hypothetical political arrangement to go along with a revamped economic arrangement. Rather, we shall be dealing with the government of the United States as established by the Constitution. Our concern will be to determine which of the present activities of government would be rendered unnecessary by democratic capitalism, which activities not now provided for would become necessary or desirable, and what changes of technique or emphasis would be indicated in present activities for which a need would continue to exist. Our major preoccupation will be with the intrusions of the state into the economy, both in a proprietary capacity and in the sovereign capacity. Also to be considered, however, are the noneconomic functions of the state in so far as they might be affected by the general atmosphere of a democratic-capitalist economy, or the special attitudes and requirements of a citizenry living and working in such an atmosphere.

The principle which should guide our discussion may be readily derived from Jefferson's dictum that that state governs best which governs least. Jefferson said this at the turn

of the nineteenth century, when the industrial phase of capitalism was just beginning and when the ideologies of personal, political and economic freedom for the individual held their strongest and widest appeal. Since then the automatic controls of the free market envisaged by the successors of Adam Smith have been partially nullified by the monopolistic tendencies of big business and hence increasingly supplanted by the centralized controls of government. We have grown accustomed to the idea that the state properly has an expanding place in the economy. The natural tendency of human thought is to swing through a wide arc from one extreme to the opposite. The discovery that simon-pure individualism would not work in the economic field has led many people, headed by Marx, to the conviction that simon-pure collectivism is the only answer. Actually the state's proper position in the economy remains what it has been all along, relative rather than absolute. Varying answers will continue to be suggested by changing technological and social circumstances. The abiding value in Jefferson's observation lies in its flexibility, its recognition that good government is comparative, and not fixed or absolute.

There is, however, a substantive virtue in Jefferson's utterance which retains its original force for any type of organized society still regarding the individual as important for his own sake. If we accept this premise, then no matter how narrowly the range of permissible individual initiative and responsibility may have been circumscribed, and how greatly the scope of necessary state activity may have been enlarged, by developments since the eighteenth century, it is still in the public interest that the state should not undertake to do for its citizens anything which the citizens, individually or through voluntary associations, can do for themselves. The basis of such a belief is not exclusively fear or distrust of the state. It rests affirmatively upon a realization of the supreme importance for the individual of an optimum opportunity for self-realization as a person. To such a belief the classic theory of capitalism, in both its political and eco-

nomic ramifications, stands committed. Democratic capitalism, though in some respects a novelty, is still capitalism.

From the standpoint of our theory, contemplation of the role of the state requires the drawing of somewhat nicer distinctions than have been fashionable in recent years. Take the crucially important subject of government ownership of certain instruments of production. Ordinarily, government ownership is taken to mean, by implication, government operation as well as ownership. It is generally assumed, both by speakers and writers and by their audiences, that the one follows from the other as a matter of course. But there is no such necessity, either in logic or in actual practice, as our recent experience with war production plants, built and owned by the government but operated by private corporations under contract, abundantly proves.

The advantage of such a hybrid arrangement is that it allows ample room for those social interests which can best be served, or can only be served, by governmental action with those other social interests (usually considered to be in conflict with the first) which can best or most efficiently be served by private initiative. There are many areas of the economy already and there will be more in the future, if a program of expansion and development upon a capitalist basis again becomes feasible, in which the cooperation of government and private capital bids fair to produce a more broadly constructive social result than can be accomplished by either agency acting alone. Between white and black there are infinite shades of gray. Democratic capitalism demands that the pre-emptive claims of both managerialists and private capitalists to new or expanded sectors of the economy be rejected wherever the circumstances indicate that cooperation of this kind would best do the job that needs doing. It would further demand that the particular shade of gray most appropriate to each situation be discovered and adopted. Let us consider a few cases.

Aside from publicly owned but privately operated war production plants, the best actual examples of mutually advan-

tageous cooperation between business and government lie in the field of banking and finance. The bank panic in 1932 and 1933 closed many banks throughout the country and caused the New Deal administration to close all of them temporarily immediately after taking office. An apparently permanent solution for the problem, which in most cases stemmed chiefly from badly shaken public confidence, was found in the brilliantly simple device of setting up the Federal Deposit Insurance Corporation to guarantee all deposits up to $5,000 in all banks which were members of the Federal Reserve System. Almost overnight runs on banks, which had threatened disaster prior to the enforced holiday, ended completely. Confidence was restored, private commercial banking resumed operations, the government refrained from going into the banking business and the claims filed with the FDIC have been well within the actuarial basis of the guaranty plan.

Another success was the dissipation of a near crisis in house mortgages. Reckless lending of money on residence properties at excessive valuations and at high rates of interest had resulted in so many defaults that in the early 1930's the capital markets for residence mortgages were virtually dried up. Under the FHA plan devised by the New Deal, the government guaranteed the principal and interest of loans made by private institutions upon mortgages conforming to FHA specifications. The effect was wholly similar to that of the FDIC experiment. Credit loosened all over the country, sound lending flourished, house building was stimulated, private capital, not the government, did the financing, and nobody lost any money.

The government policy has not been consistent, however, even within the restricted field of banking and finance. Through the RFC the government has entered part of the domain formerly belonging to private finance. It is true that it did so only after private finance had beaten a retreat, not altogether strategic. It is also true that RFC policy requires applicants for loans to have recourse first to private lending

agencies. The RFC was established during the Hoover administration, and thus antedated the FDIC and FHA. Yet the question persists whether it is desirable for the government to oust private business from a segment of its normal activity in order to accomplish a social end which, for aught that appears to the contrary, could be accomplished equally well in a different way. The different way would be, of course, analogous to the FHA plan of offering government guaranties of private loans made according to specifications laid down by the government agency created for this special purpose. An even closer analogy is found in the government-guaranteed loans made to war veterans for business purposes.

The fact that many of the RFC loans have been very large, more within the scope of investment banking and underwriting than within that of commercial banking, presents no insuperable obstacle. Investment bankers and underwriters would have been glad to have the business on government terms, and the dubious result of the government's embarking upon a colossal money-lending business would have been avoided. Concentration of such enormous resources within the hands of a single individual, such as Jesse Jones, is no more desirable when that individual happens to be a public servant than it would be if he were a private citizen. Testimony in the Jones-Wallace controversy before the Senate Commerce Committee clearly demonstrated this. The only true safety for would-be borrowers among little business lies in splitting up the single judgment of a single lending potentate in or out of government into a multiplicity of private lending judgments, guided and encouraged by a liberal government policy tied to a liberal guaranty system.

We may raise a similar question with respect to the Social Security system. Social security, at least to the extent provided by the federal plan, is a vital human need. The plan itself is well conceived and no alternative has been available. But if democratic capitalism were the dominant social order and private security plans of capital and labor were given impetus, would it not be desirable to subtract from the total

government undertaking whatever the private employer-employee groups might safely assume?

This does not amount to a suggestion that the federal program ultimately should be liquidated. Obviously there will be many millions of noncorporate employees it should continue to provide for, especially if the program were broadened to include agricultural laborers and domestic servants. Nor is it suggested that all private programs that might be developed should be accepted automatically as adequate substitutes for participation in the government program. Clearly, as in the FHA case, proper standards would have to be fixed, covering the scales of premiums and benefits, the actuarial basis, investment policies and the like, as conditions both of exemption from the federal program and of the granting of a government guaranty, which would also be required.

One of the considerations favoring such a change of policy if and when the time becomes ripe is the same as that already advanced in connection with the RFC: the danger inherent in vast concentrations of economic power in few hands, either public or private. A second consideration also invites attention: the long-term risk of a pro-managerial and anti-democratic attitude on the part of the public if more than the necessary minimum number of wage-earners become accustomed to looking to the federal government for social security benefits. The fact that they and their employers have paid for the benefits is likely to become lost from view if the government administers the fund and issues the benefit checks over a long period.

To sum up the discussion thus far, we may say that the apportionment of responsibility as between government and business for financial activities in general should place business in the foreground from the standpoint both of the ownership of primary capital resources and of the practical handling of them. The role of government is the dual one of guarantor and disciplinarian. Therefore it should be in the secondary position of a surety. Experience already demonstrates the constant need for sound and reasonable

standards, and the occasional need for bolstering public confidence. The government would be able to supply both from a secondary line of defense, and not altogether by coercion. The practice of exacting compliance with the established standards as the price of securing the guaranty (or the guaranty plus exemption, in the case of social security) has already proved itself in the case of the FHA, and can readily be extended or adapted as the occasions arise. Basically, the technique is persuasion based on substantial inducement, which also underlies our whole program of democratic capitalism.

Turning now to production involving government ownership with or without operation, we have wide and fertile fields from which to select material. First in order of historical precedence are all types of industry "affected with the public interest," such as railroads and utilities, for which government ownership (either central or local) has been advocated and in part adopted. Next come the various segments of the extractive economy involving irreplaceable natural resources (minerals, petroleum, etc.) or slowly replaceable crops (e.g., forests). Government ownership has not advanced so far in this category as in the first, even in Europe, which generally is far ahead of the United States in its thinking along these lines. Most recently we have been beset by extractive problems involving primarily chronic overproduction rather than monopoly or the depletion of natural resources, although since the advent of the New Deal and the drought years it has come to be recognized that soil depletion and erosion tend to assimilate this category with the second. Here government ownership has not been thought of as contributing to a solution except to a limited degree and in an indirect sense.

Public ownership of carriers and utilities has reached its greatest development in Europe. There for many years even in capitalist countries the railroads have quite generally been owned and operated by the central governments, and utilities by municipal governments. In the United States no

commercial railroads are publicly owned, and municipal ownership of utilities and transit systems is only sporadic. There has been a departure from American tradition, however, in the growth during the past decade of hydroelectric *installations operated by the federal government.* The motivation, it is true, lay primarily in projects of a developmental or conservation type, such as flood control and irrigation, to which the manufacture and sale of electric power was only an incident, albeit an important one.

Government ownership and operation of carriers and utilities serve the same purpose as government regulation imposed upon private ownership and operation: inhibiting the evils of uncontrolled monopoly. The argument for state ownership as against regulation is that it enables a cheaper service, since the necessity of realizing a profit for private ownership is eliminated. The difficulty with the argument is not so much that it is wrong (although this has been asserted, on the ground of an actual though concealed lessening of efficiency) as that it proves too much. Actual experience with the alternate technique of regulation has demonstrated that public ownership is not the only satisfactory means of handling the monopoly problem. If the further lowering of tariffs and service charges is to be accepted as a reason for preferring outright ownership to regulation, then there is no logic in halting the argument at the borderline between monopolistic and non-monopolistic enterprise. Theoretically, *all* enterprise could better perform its appointed function of supplying the public with goods and services at cheap prices if it were taken over by the government.

In short, public ownership is managerial philosophy in its purest form. Whatever limitation it may place upon its immediate objective in a particular case is certain to be extended when the next case comes along. There being no inherent limitation, any that is talked about is arbitrary, and serves only political or forensic purposes. Democratic capitalism rejects public ownership and operation of carriers and utilities, except in circumstances which would discourage the

investment of private capital; e.g., the inauguration or continuation of needed service yielding no profit or incurring constant deficits.

A more complicated problem exists with respect to government-built hydroelectric installations, of which TVA is the most comprehensive example. The initiation of such a project, rooted as it is in flood control or some other conservation policy which naturally calls for an exercise of statesmanship rather than of private business judgment, properly belongs to the government. Operating control of the installation, in so far as its primary purpose is involved, must remain with the government.

But the manufacture and sale of hydroelectric power is not, *per se*, a government function. It is well within the capabilities and experience of private enterprise and, on principle, should be returned to private enterprise unless some technical factor makes this impossible in cases like that of the TVA. Specifically, the power generating plants of the TVA (and of the great irrigation dams in the west) might be leased to private corporations formed for the purpose of taking over their operation, subject to government supervision and control in matters affecting their basic purpose. Conceivably, the standard operating procedures in which the government is interested could be spelled out in the lease with sufficient particularity to make unnecessary any actual intervention by government personnel even in times of flood. I do not pretend to know enough about the techniques involved to be able to judge whether this idea is practicable or not. It is submitted, however, to illustrate the general principle that even in economic sectors where the government has a legitimate proprietary interest, possibly one that is exclusive, operation should not be tied to ownership unless technical considerations so require. If the two can be separated they should be, in order to prevent concentration of economic power and the growth of a managerial attitude.

Possibly the strongest case for government ownership and operation, considering the tragic consequences of uncon-

trolled private exploitation in the past, arises in the extraction of irreplaceable or slowly replaceable natural resources. When we think of our denuded and burned-over forest lands, our depleted oil and mineral reserves, our exhausted or eroded top soils, and the like, we can see very clearly the advantages of a central plan for the orderly and thrifty development of natural resources over the hasty, wasteful and irresponsible methods of capitalism operating free from all control. Much of the harm that has been done is now beyond remedy. What remains of the possibilities for intelligent conservation does not necessarily point to government ownership, however, much less to ownership plus operation. The essence of the problem is not, in most cases, the physical methods of extraction, but the enforcement of farsighted policies for restoration wherever possible, and maximum utilization and efficiency where restoration is impossible. We must devise techniques for situations not yet confronted while at the same time expanding methods already tried out with promise of success. We should not expect to hit upon a common or all-inclusive formula, for the problems differ substantially and so, of necessity, will the remedies.

In so far as the relations between government and business in respect to ownership and operation are concerned in the natural resources category, the following principles suggest themselves:

1. Where private ownership of natural resources now exists, there is no need for the government to acquire title, as through condemnation proceedings under its sovereign power of eminent domain. Adequate machinery of control is what is essential, which may as well take the form of regulation or of special incentive taxation as of direct operations by virtue of ownership. A modern example of control by regulation is to be found in the work of the wartime petroleum board, which strictly governed the production of the oil fields. Control by means of incentive taxation is a possible alternative, with penalty taxes providing reinforcement.

2. The government owns certain mineral lands (e.g., Tea-

pot Dome and Elk Hills) which it can hold in reserve or lease for development and exploitation upon any terms it chooses. There is no reason why the government should not explore for and acquire other mineral resources to be similarly held. While private industry would probably regard such an activity as undesirable competition, it would not be competition at all in an operating sense. If it resulted in the government's acquiring larger reserves than industry, the public interest would be as well and perhaps better served thereby.

3. Similarly, the government could pursue the policy, upon which a beginning has already been made, of acquiring cut-over forest lands and submarginal farming lands with a view to reforesting the former and converting the latter to some useful purpose for which they are suitable. Upon the completion of each such project the land could be leased to private corporations or individuals for utilization in a proper manner, especially including, in the case of forests, new planting for all timber cut.

The foregoing is by no means a comprehensive blueprint various fields of finance and production (mostly primary production), that the alternatives available are not limited to of all the solutions required in the large and growing areas of the economy in which special vexations have led to the advocacy of government ownership and operation, and it is not offered as such. The intention has been, rather, to demonstrate by means of illustrative situations selected from public ownership and operation as against private ownership and operation with or without regulation. Between the two, all sorts of combinations are possible. Some involve a division and allocation of property rights which collectively make up full ownership. Others involve a division of operating responsibilities. The point is that a society concerned at the same moment with a tangible public interest, such as conservation, and an intangible public interest, such as the encouragement of individual initiative along socially con-

structive lines, can be and needs to be discriminating in the formulation of policy. There is room aplenty for the optimum accommodation of the two interests in each situation. They need not be considered as opposed. In the broad view they cannot be so considered.

XIX

Technological Advances and Unemployment

CLOSELY allied to production is scientific research and development, a field in which much larger governmental activity is called for than has heretofore been undertaken. Agricultural research, and education in the highly profitable results, have been conducted for years by the Department of Agriculture and by various state universities and farm schools. The work of the Bureau of Standards was considerably expanded by Herbert Hoover when he was Secretary of Commerce, and additional laboratories are operated by the Federal Trade Commission. Outside of agriculture, however, the great bulk of technological development upon which industry depends is carried on privately, and a large and growing fraction is concentrated in the extensive research and testing laboratories maintained by giant corporations and combines.

The latter are to be commended on this account. One of the criticisms certain to be directed against the program of democratic capitalism is that by decentralizing industry it would jeopardize the continuance of private research, for which large facilities and outlays of money are required. Such a criticism could easily be exaggerated. There is nothing in the theory of democratic capitalism which insists that corporations be small rather than large, or that they have any particular characteristic other than that of mutual independ-

ence. To the extent that the objection may be well founded, however, it serves to underscore the long-standing need for research centers sponsored and, to some extent at least, operated by the government. The need is not to supersede the research activities conducted by private industry, but to supplement them. It springs from the inevitable consequences of the present monopolistic situation in the all-important field of technological research, which may be summarized as follows:

1. Because of the elaborate facilities and considerable expense involved in carrying on most types of research in all fields of applied science and engineering, it has become increasingly difficult for an individual, however talented or expert, to work independently. He naturally seeks the opportunities affording him the greatest scope, and he finds them for the most part in industry, whose equipment and salary scales outclass even those of long-established technical schools and universities. His scientific or engineering achievements naturally belong to his employer, and the covering patents, all too often, are placed by it in an international patent pool under a cartel agreement or simply held for the indefinite future.

2. In the minority of cases in which independent inventors do perfect and patent commercially useful devices, they are confronted by a similar financial impasse when it comes to organizing a company to manufacture and market any particular invention. Capital requirements are large, "blue sky" laws are strict and securities commissions hard to satisfy where a brand new venture is involved. Usually the only recourse is to sell or license the patent to an already established manufacturer, which will then treat it as it treats its other patents, perhaps paying the stipulated minimum royalty under a licensing agreement for years without actually producing or marketing a single unit under the patent.

3. With the patent market dominated in one way or another by big business, it is not easy for little business to compete. Such technical improvements as small companies

do develop, patent and manufacture are quite likely to be adjudged infringements of similar patents held but not exploited by big business. Consequently the technological front does not move forward commercially nearly so rapidly as scientific knowledge and manufacturing capacity would warrant.

One attack upon the general problem clearly called for is a basic reform of our patent laws. Their original objective of stimulating invention and scientific investigation by assuring to inventors and discoverers a monopoly market for a period of seventeen years, is consistent with the public interest only as long as a market for each patented process or article is promptly established and diligently expanded. Where the state's gift of monopolistic proprietorship serves as an inducement not for production, but for the exclusion of others from a technological advance which might rock the industrial boat, then clearly the public interest is not being served, and there is no basis for continuing the grant of monopolistic proprietorship. The answer would appear to be a simple amendment of the patent laws whereby a patent would become void a stipulated time—say, twelve months—after the cessation of commercial use or marketing of the subject of the patent or, if commercial use or marketing were never undertaken in the first place, then twelve months after the date of issuance of the patent.

Such an amendment would break industry's strangle hold on the fruits of invention. It would not, however, open to inventors access to laboratories and other facilities necessary to the carrying on of either an individual's own work or of work in which the government itself has a legitimate direct interest, such as new weapons for national defense. The only adequate answer to these two needs would be a large and geographically well-distributed number of laboratories owned by the government, some to be operated by research scientists and engineers employed by the government and others to be open for use by any qualified individual able to pay a fee to cover the mere operating cost attributable to his use.

By such means the interests of industry, of the government and of scientists and engineers preferring to retain their independent status, could all be recognized.

The exploitation of patents granted to free-lancers would still entail the problem of attracting sufficient capital—if free-lance production were to follow free-lance invention. But the reform of the patent laws already suggested would insure that existing enterprises could be trusted to handle production of new inventions. That would satisfy most independent inventors who did not also hanker to become independent manufacturers. The problem of those who did desire to become entrepreneurs on their own account would be somewhat eased by the adoption of the recommendations already made in respect to the RFC. It should be remembered, however, that this particular problem raises questions common to the establishment of new enterprises generally. It is not peculiar to the field of scientific research and development.

The inevitable consequence of freeing technological advancement from the practical obstacles now hindering it would be a greatly increased risk of "technological unemployment." Fear of this is the standard excuse put forward by industry whenever its restrictive practices are called in question. The risk is a real one even as matters now stand, and its enhancement is not to be contemplated lightly. Democratic capitalism or any other program of economic reform which would stimulate the marketing of new inventions must, therefore, take into account the job displacements which assuredly would follow.

Lest we begin our consideration of technological unemployment under a false impression, it would be well to remind ourselves that not all technological improvements tend to produce a net increase in unemployment. If the particular improvement represents a new, easier and cheaper way of performing one or more required steps in a familiar sequence, then unemployment increases may be anticipated. For in general a reduction in costs implies a reduction in the

number of man-hours devoted to a particular task. In such cases the brand new employment created by the production of the laborsaving tool does not ordinarily offset the decrease in employment at the place of use; moreover, it does not absorb the kinds of workers dispossessed of their former jobs. The workers required to mass produce the mechanical cotton picker, for example, would be fewer in number and different in character from the thousands of hand pickers who would be driven from the cotton fields by its widespread adoption.

On the other hand, a theoretically equal number of possible new inventions would not fit into the established patterns of production at all, but would create entirely new consumer demands. The satisfaction of such demands represents a clear gain in employment. The modern world is replete with examples of this kind: electronic equipment, new materials such as plastics and chemical fabrics, household appliances of all sorts, etc. Even where new industries in such fields as these compete with older industries, the gains in employment more than offset the losses. The airplane has not driven out automobiles, railroads or steamships. Since the invention of slide fasteners we now have "zippers" *and* buttons.

While it is true, therefore, that maximum utilization of our technological resources would mean job decreases or eliminations in certain categories, it would also mean the creation of new jobs previously unknown. It is naturally impossible to foretell to what extent the figures for technological unemployment and for technological re-employment and new employment would be in balance for an ensuing period of time. It is likewise impossible to determine in advance the extent to which workers turned out of the eliminated jobs would be capable, either immediately or after a feasible period of training, of undertaking one or more of the newly created jobs. It seems reasonable to suppose, however, that in both of these areas of uncertainty the tendency under the democratic-capitalist organization of society would be in a direction which would yield increasingly favorable answers.

It is noteworthy that the tendency under finance capitalism

has been largely in the unfavorable direction so far as employment is concerned. The reason is easy to grasp: as control of production has become more and more centralized in fewer and fewer hands, the interest of the dominant capitalists has naturally been to lower the costs of producing the established lines of consumer goods, not to seek new lines which might knock out whole segments of the existing empires. Research in the great industrial laboratories has therefore been channeled very largely towards the preservation and consolidation of the *status quo*. To the finance capitalists a device for simplifying the production of perishable rubber tires, for example, would be welcome; but not the discovery of a new material for making tires which would be virtually indestructible. By the same token there has been no incentive, under finance capitalism, to upgrade unskilled workers through training programs into skilled workers. Developmental programs leading towards technological unemployment create no demand for an increased number of semiskilled and skilled workers.

No one would claim that the personal attitudes of entrepreneurs under democratic capitalism would differ substantially from those of entrepreneurs under finance capitalism. The difference in social result to be anticipated under democratic capitalism does not stem from any supposed increase in altruism or social consciousness. It would result from a substantial decrease in the power of established entrepreneurs to clog or guide the progress of scientific research and development. Once set free in the manner suggested, experimentation would move naturally towards achievements leading to new employment as well as towards achievements leading to unemployment. And new employment opportunities would provide the inducement for the upgrade training of workers needed to fill the new jobs.

The foregoing observations need not be rested altogether upon abstract analysis. We have already seen something of what we may expect to see again if democratic capitalism, or its equivalent, is introduced. The really basic inventions

which have altered the face of modern society—the telegraph, telephone, radio, automobile, airplane, etc.—were all developed *prior* to the maturing of finance capitalism. They were all developed, that is to say, during the relatively free-for-all phase of industrial capitalism, or at any rate before the giant concentrations of finance-capitalist power were built up to their present stature.

It is true that finance capitalism, rather than industrial capitalism, perfected and mass produced all of these devices. But therein lies the historical analogy in point: the genius of finance capitalism has lain for the most part in the improvement and gradual perfection of what is already known, not in the discovery and exploitation of what has previously been unknown. For fruitful innovations, whose introduction constantly menaces the old ways, one cannot look to the proprietors of the old. One cannot expect them of a society whose creative impulses are largely controlled by the same interests which control its productive plant. Under the industrial phase of capitalism such concentrations did not exist. And democratic capitalism would resemble industrial capitalism in the dispersed character of its organizational pattern.

Having made the point that under democratic capitalism we might justifiably hope that technological re-employment and new employment would at least balance technological unemployment, we must now face the possibility that they might not. This requires us to take note of the fact that the cutting of production costs (the immediate cause of technological unemployment) is not the only possible benefit to be derived from laborsaving machinery and other improvements in productive efficiency. An alternative benefit equally possible of realization is the reduction of the working day. The common-sense answer to technological unemployment, should it appear in permanent form (i.e., as more than a transitory phase, while displaced workers are undergoing retraining for new jobs known to be available to them) is a mandatory reduction of the hours of labor in the industries in the regions where such unemployment occurs, so as to

spread the decreased total of man hours of labor among the same number of workers as before.

Control over the hours of labor as well as over minimum wages, was one of the functions committed to the regional boards by the New Deal's Wages and Hours Law. This function could likewise be carried on under democratic capitalism. The procedure, commencing with discussions within the unions and between unions and employers and culminating with hearings before the local Wages and Hours Board, would be the same as in cases involving a readjustment of basic wage rates. It would thus be the province of the unions and the employers in the first instance and of the Boards in the last instance to determine, in each case of allegedly permanent technological unemployment, whether or not the charge was well founded and, if so, how much of the improvement in efficiency should be exploited in the form of reduced working hours and how much in the form of decreased production costs. Naturally, the decisions of the boards would vary widely as between different industries within a single region and within a single industry as between different regions. But in a decentralized economy no one should expect uniformity in such matters. There is no reason to suppose that uniformity would be especially desirable.

XX

Monetary, Fiscal and Regulatory Policy

WE MUST now attempt to deal with the subject of government regulation as we dealt with that of government ownership and operation: not in detail, but with a view to discovering the underlying principles of state regulation which would be acknowledged and acted upon by democratic-capitalist society. Our concern is not only with the direct regulation of the instruments of production, their markets and the capital markets; it also includes support of the economic process as a whole through enlightened fiscal and monetary policy.

Again taking our cue from Jefferson's maxim, we may say that the best government by the test of least government, in respect to the general subject of regulation, refers not to the arbitrary limitation of activities legally subject to regulation, but to the kinds and quantities of regulatory pressure in fact exerted. In these days of close economic interrelations it is too late to argue with any profit which lines of enterprise are "affected with the public interest," so as to be liable to regulation, and which lines are not so affected, and hence immune from regulation. In mid-twentieth century *all* economic endeavors are affected with the public interest, in the sense deemed necessary, under the Constitution, to justify state intervention to prevent fraud, unfair trade practices or the collapse of any sector of the economy. How much and what

kind of regulating need actually be done will depend, of course, upon the special circumstances of each critical situation. But the fact that the development of a critical situation anywhere in the capitalist economy poses a latent threat to the entire structure, calling for prompt remedial action by the state, has been too well learned in the past fifteen years ever again to be forgotten.

It follows, therefore, that most (but not all) of the regulatory apparatus of the state presently existing would be continued under a democratic-capitalist regime. The real differences between the eras of finance capitalism and of democratic capitalism in respect to state regulatory activities would appear not in a widespread scrapping of the machinery but from a comparison of its actual operations.

We know for a certainty in advance that the regulation of carriers, utilities and communications systems would still continue under democratic capitalism. Even the sharing of net earning with employees and patrons would not obviate the necessity of supervising monopoly rates, for they could still be excessive even though shared. We also know, however, that the present wide range and large volume of business coming before such agencies as the ICC, FCC, CAB, etc. would be substantially reduced under democratic capitalism. Certain problems of a peculiarly finance-capitalist nature, such as the propriety of proposed mergers and consolidations, would have disappeared, leaving only proposed operating agreements, possibly within the purview of the antitrust laws.

Similarly, while the regulation of stock exchanges by the SEC would continue, the burden would be lightened by the elimination of speculation in common voting stocks. Shares not carrying voting power could still be manipulated by syndicates and pools. But something of the zest and resourcefulness of the old-time operators would be lost under a system which denied to them all possibility of gaining control of companies whose stocks they dealt in.

The Federal Trade Commission would also carry on, but

again the dispersion of finance-capitalist aggregates and the resultant sharp increase in competition between basic production units should create a healthier business atmosphere. With less opportunity remaining to the large to crush the small through price wars, deluges of misleading advertising, etc. the Commission should find appreciably less to do.

With business conducted in such a way as to preserve a proper balance between investment income and consumer income, and with private lending agencies restored to the business of lending money in conformity with sound but liberal policies backed by government guaranties, the commercial banks should enter upon a serene period of profitable operations. The Federal Reserve Board would continue to preside over the Reserve System; but in such an atmosphere there should be less occasion to alter discount rates and reserve requirements, as has been done so often in an effort to trim an essentially unstable ship.

There would be no further need for the National Labor Relations Board. Such of its present functions as would survive the establishment of democratic capitalism would be merged in those of the expanded Wages and Hours Boards. The other functions would simply dissolve in the new rapprochement and increasing fusion of the capitalist and laboring classes.

There would be one unitary addition: the regulation of cartels. The cartel problem would be substantially diminished by various of the recommendations. In so far as cartels are made up of members which, individually, have achieved dominance if not monopoly of their industrial sectors within their own countries through finance-capitalist concentrations of capital, the direct operation of the democratic-capitalist program in this country would automatically remove the American cartelists by dissolving the combinations. In so far as particular cartels have flourished on the basis of the pooling and joint control of patents, the reform of the patent laws would eliminate that aspect of the problem. Most of the remainder would consist of cartels engaged in the primary ex-

traction and international marketing of natural resources located, for the most part, outside the United States (rubber, tin, diamonds, quebracho extract, titanium, etc.).

Instead of attempting to handle this residue of the cartel difficulty by enforcement of the antitrust laws, which is rarely permanently successful and is at best negative in approach, it would be better to subject cartels to government regulation, as hinted by the State Department. The monopolistic character of cartels makes them eligible for regulation under the narrowest historical test of businesses "affected with the public interest." The technique of regulation enables a continuous control of prices, as in the case of carrier and utility rates, which the technique of attempted suppression does not and cannot accomplish.

The fiscal policy of democratic capitalism would be determined, of course, by the revised corporation and personal income tax laws which are the basic instrumentalities of the program. Their enactment, however, would entail the immediate loss of the very large revenues heretofore realized from the corporation income levy. There would thus arise a replacement problem sufficiently acute to bring about a general overhauling of the federal tax structure, which in any case is long overdue.

Partially offsetting the loss of revenue from the corporation income tax in the course of time would be increasing yields from the personal income tax. (Under the existing scheme of this law, trade dividends would not be reached except dividends upon purchases made in the course of a profession, trade or business, and hence deductible as expenses in the year they were made. Since cost-of-living items and other nonbusiness purchases are not deductible, trade dividends in respect to them would merely represent a partial return of income already taxed in the preceding year.) Also of deferred significance would be enhanced revenues from the estate and gift taxes. For it seems probable that an expanding economy would increase the number of decedents'

estates taxable under the present rates, and would also promote the making of taxable gifts. There would be gradual improvement in the yields of the various "nuisance" excises, and an immediate rise, relatively sharp but scarcely of significance from the revenue standpoint under the present rate (11 cents on $100), in the stock transfer tax receipts. Clearly, therefore, a large deficit would have to be made up.

All taxes are odious to those who pay them and most tax structures, however well designed, have a chilling effect of greater or lesser degree upon the conduct or contemplation of business undertakings. It is always highly desirable, therefore, in considering a proposed tax, and quite indispensable in redesigning an entire structure, to have clearly in mind the economic situation prevailing at the moment as well as a thorough grasp of long-range economic objectives, and how specific taxes are likely to affect them. Most congressmen and all observers of Congress are all too familiar with the practice of imposing one kind of tax and avoiding another because some citizen groups are better organized or more alert than others. This is the converse of what common sense dictates and what, it is to be hoped, the democratic-capitalist state might ultimately achieve.

In two respects the very establishment of democratic capitalism as a principle of economic and political action should simplify and clarify the general problem of taxation. In the first place the removal of corporation income as a subject of taxation would dispel considerable obfuscation induced by those lawmakers who think that by taxing fictitious (corporate) persons which cannot vote they are not thereby taxing natural persons who can and do vote. Secondly and more broadly constructive should be the hope, if realized, that the same Congress which had enacted the basic democratic-capitalist legislation would be sufficiently alive to the nature of its own handiwork to provide it with a tax structure in keeping with its basic objective, which is continuous expansion. Continuous expansion is dependent upon continuous enlargement of consumer purchasing power. Since all taxation

necessarily diminishes purchasing power, it follows that the tax burden should be so distributed as to bear most lightly upon the most crucial segments of consumer purchasing power and most heavily upon nonconsumption segments having a tendency actually or potentially harmful to continuous economic expansion. It is clear, therefore, that acts or privileges must be considered as possible tax subjects as well as income or property; and that the distribution of the total tax load must be determined by reference both to over-all economic effect and to capacity to pay.

By way of illustration: all sales taxes on consumer transactions are more harmful than sales taxes on capital transactions (e.g., stock transfer taxes, real property transfer taxes) because they have a more direct tendency to weaken consumer demand. All flat-rate taxes are more harmful than graduated taxes because they disregard the capacity of the taxpayer to pay. Occasionally, however, an element of graduation is inherent in a tax flat in form, or the evil of a flat rate is not mitigated by a graduation scheme providing no exemptions. A flat tax of $300 on fur coats or items of jewelry costing more than $3000 would be sufficiently related to the capacity of the taxpayer to pay; whereas the lowest bracket of a graduated tax without exemptions, levying one cent on the first dollar or fraction thereof of every purchase, would bear very heavily on purchasers of stale bread or two-day-old pies.

The logical starting point for the laying of taxes in an integrated pattern would be to select as subjects for special treatment any known or foreseeable practices within the economy having a tendency to check expansion, or to impair flexibility or genuine stability. Excises could serve the double purpose of providing some revenue and of exerting pressure against the uneconomic practices in question. One example of this kind would be embedded in the basic democratic-capitalist legislation we have already considered: the special tax to be levied after the expiration of the grace period upon income realized by ineligible holders on account

of voting stock. The object, of course, is not to raise revenue but to force a sale of such stock.

Another possible example would be aimed at a continuation under democratic capitalism of the practice, well rooted under finance capitalism, on the part of many corporations, of building up very substantial surpluses at the expense of dividends to stockholders. Considering the essential instability of finance capitalism in its latter years this practice may be understandable, although the New Deal administration did procure and for a brief period retain a special tax on corporate earnings not passed along as dividends. Under democratic capitalism, however, the practice, if continued unabated, would have aggravated consequences. For the only source of surplus available would be the share of net earnings not disbursed as employment dividends and as trade dividends; the same share, in other words, which would also be the only source available for dividends on stock. Moreover, under an expanding and stable economy there would be less need to increase existing surpluses at the expense of stockholders. Therefore consideration could well be given to a graduated excise upon additions to corporation surpluses—graduated with reference both to the percentage of current income added and to the ratio of pre-existing surplus (if any) to total capitalization.

The bulk of the required revenue, however, could not be realized as an incident to the suppression of economic vices. To the extent that the suppression succeeded, there would be no such revenue. To the extent that the vices continued to flourish, difficulties of other kinds would rapidly develop. The bulk of the revenue would therefore have to come, as at present, from taxes upon neutral or beneficent subjects imposed, however, with reference to the ability to pay. Since taxes on capital transactions in general are less harmful than taxes on consumer transactions in general, or upon incomes which will be spent for the most part in consumer markets, the next phase would be to lay taxes on capital transactions.

Very attractive would be the opportunity, which the

democratic-capitalist program would have created by forcing the sale within the grace period of voting stock held by ineligibles, of realizing a large amount of needed revenue very quickly through sharp increases in the rate of the stock transfer tax. The present rate of 11 cents on each $100 (or fraction thereof) of value, being only eleven-hundredths of one per cent, is ridiculously low from any standpoint. Many states have sales taxes applicable even to food purchases starting at 1 per cent. There is no reason why the federal stock transfer tax should not be transformed into a graduated tax starting at 1 per cent. This would entail substitution of an annual return for the present stamp method, which might not be worth the trouble after the great rush of recapitalization was over. It would be decidedly worth while during that period, however, and administration could be tied in with administration of the income tax laws. Later there could be a return to the old method.

Also attractive, and increasingly so as the dynamic of democratic capitalism made itself felt, would be the enlarged receipts from the estate and gift taxes, especially if the scheme of imposing a graduated tax upon an estate or gift as a whole were replaced by one which took account of the identity of the beneficiaries, their ages and degree of relationship, if any, to the decedent or donor. This is the philosophy of taxation in this field adopted by the federal government in 1864 and again in 1898, which still prevails among most of the states. It seems inherently sounder. Since legacies and gifts are segments of capital wealth and windfalls to the recipients, there could be no sound objection to substantially increased levies of this character, so long as widows and dependent minor children were adequately protected.

Last but far from least would come personal income taxes. In view of the size of the national debt, there is no economic excuse for making deep cuts in this levy. It is true that the pressure on the lower brackets should be eased, as was done in the 1945 act. This objective, however, could be better accomplished by readopting the former practice of favoring

earned income as against unearned, because of its constructive social tendency and obvious relevance to the principle of capacity to pay. In no event should there be a return to the earlier usage of high personal exemptions, even after the expanding economy made this possible. The administrative trouble and expense involved in collecting a few dollars each from many millions of low-income taxpayers has been greatly eased by the adoption of alternative short forms and the pay-as-you-go principle. The real purpose to be served here is less economic than political: the mass inculcation of a sense of common responsibility for the common weal. This is of the essence of democratic capitalism.

The rest of the fiscal policy of democratic capitalism (aside from taxation) and its monetary policy need not detain us very long. Naturally both would be tailored to the needs and temper of a self-adjusting, free-enterprise system.

Democratic-capitalist statesmen would have no pretentious ideas about balancing the federal budget over the business cycle instead of annually. Some deficit spending might be unavoidable in the early years, until the new system hit its stride. But as its promise of an abating business cycle began to be fulfilled, there would be fewer and milder waves to furnish an excuse for postponing the harsh task of balancing the budget. Moreover, with the national debt already huge, the incentive to add to it through deficit financing would be at a minimum.

Debt policy would be the simple and old-fashioned one of meeting maturities with cash on the barrelhead as far as possible, and refinancing only to the extent demanded by economic circumstances, except as unusual opportunities might arise for refinancing at lower interest rates. If, however, the economy were really expanding, the demand for new capital would be so strong and the tax revenues from current operations so improved that the opportunity and the need for extensive refinancing would both be reduced. There is no way of meeting the debt problem, within the framework of

capitalism, except to increase the volume and tempo of economic activity to the point at which a workable relation between the debt and the national economy as a whole would be restored. That basic fact would determine policy in this regard.

Monetary policy would be conspicuous by reason of being inconspicuous. We have been off the gold standard now for thirteen years, and have been operating with a 59-cent dollar nearly as long. There would be no point either in making further changes in the gold content of the dollar or in returning to the gold standard. The monetary policy of a country is of greatest significance in its foreign-trade aspect, as appeared very clearly from the evil international consequences of competitive devaluation in the 1930's. Its relative unimportance in the domestic sphere likewise appeared from the demonstrated ability of the managerial regimes to get along on "funny money" during the same period, despite dire capitalist predictions of financial collapse. The United States has already signified a constructive monetary policy for the future by ratifying the International Monetary Fund agreement reached at Bretton Woods. If other countries do the same, responsibility for the adjustment of currency exchange rates will have been centralized for the first time at the international level, where it definitely belongs. If the subscribing nations follow the recommendations of the Fund to be made from time to time, little would remain to be done at the national level except to implement the recommendations.

It may appear that the foregoing outlook on fiscal policy is so conservative as impliedly to exclude the undertaking by government of needed improvements in public health, education and the development and conservation of natural resources. Any such inference is rebutted by our discussion of these important subjects in Chapter XVIII. It is true, however, that common sense will have to be used both in viewing such projects in their relation to the economy as a whole, so as to gain the proper perspective, and in timing their initiation so as to supplement, not interfere with, other activities.

To illustrate: we need, right now, flood control dams in the Missouri Valley, more public hospitals and millions of new houses and apartments. All three needs involve construction. Assuming that the current labor supply, equipment, etc. are insufficient to meet all three needs concurrently, it is necessary to choose between them. Obviously from the social point of view, it would be wise to meet the housing shortage first, then to build the hospitals ahead of the dams. Equally obviously from the economic point of view, it would be prudent to postpone giant public works such as dams until the "normal" employment afforded by house and hospital building began to taper off. Other projects of a conservation type, involving regulation rather than production, could be initiated immediately and carried along continuously.

The foregoing discussion of government regulation of all kinds is intended merely to illustrate the general implications, in this sphere, of the theory of democratic capitalism. The underlying principle which emerges is wholly similar to that which we noted in connection with the general subject of ownership and operation: the proper role of government is secondary to that of private enterprise. It consists of those functions which only government can perform and which must be performed if the economy is to be kept running smoothly. Naturally, these functions change as circumstances change.

Flexibility of organization as well as of method should be the rule. The practice which grew up largely under the New Deal of creating a new and independent agency every time a new regulation or system of regulations was to be administered, should be restricted as far as possible, with a view to keeping regulatory activities within the permanent departments of government. In general, the line of demarcation should be drawn between those agencies possessing judicial or quasi-judicial powers and those which are purely administrative. The former should be independent, to conform to our conception of the separation of powers set forth in the

Constitution. They should be stripped of their investigative and prosecutive powers, which should be transferred to the Department of Justice or to other departments as might be considered appropriate in each case. The triple combination of functions belonging properly to prosecutor, jury and judge, which characterizes so many of the existing administrative boards and commissions, is managerial in conception. It is definitely inconsistent with the traditions of American democracy.

XXI

Quality of Political Performance

A SURVEY of the democratic-capitalist state would not be complete without a concluding reference to those aspects of political life, not directly connected with the economy, which would be affected. Most fundamental of these noneconomic aspects are the character of the electorate and the character of its elected representatives.

Such far-reaching economic transformations as those contemplated by democratic capitalism would have decisive repercussions in the political sphere. As labor began to experience a feeling of solidarity with capital, through the growth of a common proprietorship, most of the old tensions would relax. With these would also disappear, over the course of time, the major prejudices, rivalries and hatreds which have provided happy hunting grounds for political charlatans and demagogues of both left and right. An economy at peace with itself in the dominant productive sectors would find that peace, like strife, is capable of permeating the whole.

A contented citizenry should emerge, for the basic conditions of contentment—a sense of responsibility and of fruitful purposefulness—would have been met. As public morale increased, the public critical sense and public ability to make discriminating judgments (with the help of a reawakened interest in adult education) might be expected to increase in equal step. As democratic capitalism proved itself in the eco-

nomic sphere, the feeling many have had of being pensioners of a paternalistic state would give way to a healthy self-reliance, which is the indispensable condition of a workable political democracy.

It has been well said that a democratic people gets the kind of government it deserves. If there is virtue in the theory of democratic capitalism and our people were thereby enabled to master their own economy, there can be no doubt that, by the same token, they would quickly master their own government.

PART SIX: INTERNATIONAL DEMOCRATIC CAPITALISM

XXII

The Illusion of American Self-Sufficiency

THE program of democratic capitalism may so far appear to be limited in scope to the domestic economy and polity. To put the idea conversely, the theory and its program may appear to have no relevance, except by precept and example, to nations other than our own, and especially none to commerce between nations.

It is certainly true that the specific implementation of the theory which has claimed our attention thus far is not directly applicable, at our volition, to the internal arrangements of other countries. It makes no direct contribution to a solution of foreign trade problems. Yet if democratic capitalism would work well in this country, it would also work in other states similarly situated; that is to say, in heavily industrialized states still partly capitalist, and with a tradition of political democracy. If practical techniques exist for the introduction of democratic capitalism locally, analogous techniques can be discovered for spreading the theory abroad; especially if, by the time the attempt is made, the theory has ceased to be a theory here, and has become the established and successful practice.

It may be objected that no discussion of the international implications of the theory of democratic capitalism is called for: that the theory, if actually as sound in the domestic sphere as has been contended, would liberate the United States from the last vestiges of dependence upon the world economy; or, from the opposite point of view, that the key to healthy world trade is an expanding economy based on full employment within the United States. In neither view would it be necessary or desirable even to consider the export of an economic theory whose adoption by other countries would in any case abide the results of an actual trial here.

In so far as such an objection would point out the practical necessity of proving the soundness of the democratic-capitalist philosophy and methodology in this country in the first instance, I wholly concur. That is the reason why I have chosen to develop fully the domestic aspects and implications of the theory before more than alluding to its possible international implications. I believe, however, that neither democratic capitalism nor any other rearrangement of the domestic economy presently conceivable would free it from the matrix of the world-wide economy, in which both the requirements and the capabilities of modern technology have firmly embedded it. On the other hand, while accepting the view that a vigorous American economy is indispensable to a vigorous world economy, I cannot see the logic of a conclusion which reasons that the non-American sectors, though admittedly dependent upon the fruits of American vigor, have no need of tapping on their own account, so far as possible, the sources of American vigor.

Quite obviously the first question to be decided is whether or not there is inherently such a connection between the economy of the United States and that of the rest of the world as to make it highly desirable, if not indeed absolutely necessary, to extend to the rest of the world the benefits of whatever revised methods may commend themselves to our own judgment based, we must assume, on adequate experience. The question is bound to receive the same answer—either

affirmative or negative—whether one approaches it from a national or from an international point of view. *If* there is such a connection it exists as a fact, not as a matter of taste or preference, and will determine policy in the same way whatever individual motivations may be.

It was the fashion among the so-called isolationists in the years immediately preceding our entry into the Second World War, to emphasize that America's foreign trade was not worth fighting for, since it amounted to only 10 per cent of its total annual volume of business. Their views gained sufficiently wide acceptance to induce Congress to enact the "neutrality" laws, beginning in the mid-1930's. Although official policy receded from this position under the pressure of events, the thought is probably still current that *because* only 10 per cent of our annual production is normally exported, there is really not much occasion to be concerned over our foreign trade.

While the over-all average figure so often quoted is correct, it may not be generally realized that in particular categories, chiefly agricultural products, we are heavily dependent upon export markets. Normally 50 per cent of the entire cotton crop is sold abroad, 20 per cent of the wheat crop, 40 per cent of the leaf tobacco, 33 per cent of the lard, 33 per cent of the rice, and almost 50 per cent of the dried fruits.[1] The first of the unanswered questions to be posed, therefore, to anybody who believes that the United States can get along without overseas markets, is what he would do with the South, the Southwest, the Midwest and the Far West if all foreign outlets for all of these crops were to be wiped out.

Secondly, we must reckon with a rather imposing list of imports which we do not and cannot produce for ourselves either at all or else in sufficient quantities, yet must have for purposes of national defense, to say nothing of the maintenance of our peacetime standard of living. In January, 1939, the Army and Navy Munitions Board reported the raw material position of the United States in respect to materials

[1] *America's Strategy in World Politics, ubi supra,* p. 274.

classified as strategic, critical or essential. The first two categories it defined and constituted as follows:[1]

Strategic materials (17): Are those essential to the national defense for the supply of which in war dependence must be placed in whole or in part on sources outside the continental limits of the United States, and for which strict conservation and distribution control measures will be necessary.

Aluminum	Mica	Rubber
Antimony	Nickel	Silk
Chromium	Optical glass	Tin
Coconut shell char	Quartz crystal	Tungsten
Manganese, ferro-grade	Quicksilver	Wool
Manila fiber	Quinine	

Critical materials (20): Are those materials essential to the national defense the procurement problems of which in war, while difficult, are less serious than those of strategic materials because they can either be domestically produced or obtained in more adequate quantities or have a lesser degree of essentiality and for which some degree of conservation and distribution control will be necessary.

Asbestos	Graphite	Platinum
Cadmium	Hides	Scientific glass
Coffee	Iodine	Tanning materials
Cork	Kapok	Titanium
Cryolite	Nux vomica	Toluol
Flaxseed	Opium	Vanadium
Fluorspar	Phenol and picric acid	

As computed by Professor Spykman from official records of the U. S. Department of Commerce, U. S. Bureau of Mines and League of Nations for 1937 to 1939, American production of the foregoing items accounted for the following percentage ranges of American consumption in 1937: on the strategic list, from 70 per cent in the case of mica to 0 per cent in the cases of quartz, tin, coconut shell char, Manila fiber, quinine, rubber and silk; and on the critical list, from

[1] From tables in *America's Strategy in World Politics*, pp. 293-294.

85 per cent in the case of cadmium to 0 per cent in the cases of cryolite, coffee, cork, kapok, nux vomica and opium.[1]

Adequate substitutes were developed for some of the commodities of which we were deprived by the attack on Pearl Harbor, notably rubber and quinine, and science might evolve substitutes for still other items on the strategic and critical lists. But we cannot count upon any particular scientific miracle in advance. We must take conditions as we find them, and the fact at this moment is that in order to produce such basic materials as alloys and other items indispensable to modern industry we are absolutely dependent upon imports from widely separated regions of the world. The argument of the isolationists from 1939 to 1941 conceded this fact, but maintained that the sources would not be interdicted even by war so long as we refrained from becoming a belligerent power. The argument assumed that the question of belligerency was one which we might decide solely for ourselves. It left out of account the possibility that other powers might choose to make war upon the United States. It was, or should have been, completely demolished by the Japanese bombardment of December 7, 1941.

The isolationist position was vulnerable in another respect. Even assuming that an outside power or coalition would not take the initiative in opening hostilities against this country if we did nothing to provoke them, the problem would remain of finding a satisfactory basis for carrying on essential foreign trade if the foreign powers concerned were managerial states committed to a policy of economic autarchy. That was the case with the Axis powers. The success achieved by Germany even prior to September 1, 1939, in reducing to vassalage the Danubian states, which had to export to live and could export only to Germany on whatever terms the Germans chose to fix, was clearly before us at the time we decided to oppose, by methods short of war if possible, the expansion of the German hegemony. The lesson was apparently lost upon the isolationists. They refused to concede

[1] From tables in *America's Strategy in World Politics*, pp. 297-298.

that, if the Axis succeeded in subjugating all of Europe, the vital areas of Africa, eastern Asia and Indonesia, we would find ourselves in a position with respect to world trade wholly analogous to the hapless position of Hungary, Jugoslavia, Roumania and Bulgaria with respect to the German trade.[1]

Barter methods always redound to the advantage of the trader having the lesser necessity to trade. In the case of managerial states holding a monopoly position in respect to raw materials vitally needed by non-managerial states, trade between the two categories becomes a form of economic warfare which the latter cannot possibly win or fight to a draw. Realization in Washington of this basic geopolitical fact, as much as any other single cause, determined American policy in favor of a course in truth leading to war, but in a way and at a time which held out the only possibility of victory in a struggle which was bound to ensue ultimately in any event.

Even if we take no account of what the isolationists themselves chose to ignore and confine our scrutiny within the four corners of the contentions actually put forward, they stand up not much better. The very minor percentage of the annual production of manufactured goods exported (which, when averaged with the agricultural export figures, yields the 10 per cent of total production talked about) was not regarded as inconsequential by the exporters themselves. During the interlude between wars, American manufacturers moved heaven and earth to maintain and expand a steady flow of exports even after it appeared that, in view of their own successful opposition and that of their fellows to the balancing of exports with imports, foreign purchasers would have no means of paying for our shipments to them.

[1] The trade in question was carried on under barter agreements calling for the exchange of Danubian wheat or oil for, say, German munitions, railroad equipment, machine tools, etc. When the time came for the delivery of the German goods, the Danubian states were informed that, unfortunately, they were not available as promised. In lieu of them, the Danubian states were offered an assortment of cameras, mouth organs and cuckoo clocks; or else credit in the form of German blocked marks, which could be spent only in Germany for goods agreeable to the Germans.

The story is a familiar one, and need not be repeated as if it were new. It will suffice to recall that during the 1920's we took foreign gold in payment while it lasted, and also made substantial loans, public and private, quite without regard to the chances of repayment. After the commencement of the depression, American business succumbed to the "me first" attitude of panic which swept the capitalist world. It made use of some and seriously urged upon Congress others of the "beggar my neighbor" expedients by which capitalist production in crisis seeks to save itself at the expense of the other fellow across the border. Export subsidies, currency devaluation or depreciation, exchange control, import quotas and high tariff barriers are among the more prominent devices which seem to promise victory but lead ultimately to defeat in the rapid maneuvering and countermaneuvering of the international capitalist economy in depression. It is not possible to say positively, even yet, who started what in the debacle of the 1930's, but it is clear that all capitalist economies participated, including our own. Aside from the improvident foreign loans, the United States is specifically responsible for giving a mighty shove in the tariff war by enactment of the Smoot-Hawley rates of 1930, and was assiduous in its efforts to "dump" production overseas notwithstanding the inevitable foreign reaction.

Argument in the face of this record that, after all, our small percentage of manufactured exports is of no importance, is without foundation in fact or theory. Rather obviously, inability to attain a desired volume of sales at desired prices in the domestic market will be partially compensated if excess production is dumped abroad even at cutthroat prices yielding no profit. For at least full production and employment can thereby be maintained (until foreign nations take countermeasures) without disturbing the home price structure. And even if industry were sincerely committed to the "economy of high wages and low prices," as under democratic capitalism it would have to be, the measure of prosperity attainable would still be the volume of production and con-

sumption which could be achieved. What advocates of economic nationalism forget is that foreign trade is still trade, and not something else. If at a given price it requires a sale of 900,000 units to break even on the costs of manufacturing 1,000,000, it makes all the difference between profit and no profit whether sales amount to 1,000,000 units or only to 900,000. Loss of the extra 100,000 in foreign markets will inevitably have the same effect as a similar shrinkage in the domestic market.

Even if, through the introduction of democratic capitalism in the domestic sphere alone, the strengthened demand at home for goods and services of all kinds should make up for all or more than all of the 10 per cent of annual production we are accustomed to sell abroad, the volume of activity and hence the level of prosperity would still be lower than they might be if a sound foreign trade were added to domestic trade. A deliberate choice of an isolationist policy would involve not only a needless sacrifice of part of our own standard of living, but would also compel recourse to extraordinary emergency measures on the part of other countries, leading in all probability to the further spread of communism and ultimately to the encirclement of and war against the United States. The real question before us, I submit, is not economic isolation *versus* international cooperation in the abstract, but of the ways and means best calculated to make international cooperation fruitful and enduring. The question of present concern to us is the extent of the contribution, if any, which democratic capitalism could make to such a consummation.

XXIII

International Application of the Democratic-Capitalist Theory

THE United States is now the only first-class power in the world still democratic and predominantly capitalist. Since it takes two to strike a capitalist bargain in international trade just as surely as it does in domestic trade, it may seem that the shifting of the Old World from capitalism to some form of managerialism makes our present question academic. So, indeed, it may turn out to be. But before we acquiesce in such a conclusion, it is worth observing that the transition to managerialism is not everywhere complete, even in the Old World. There still exist, especially in western Europe, both memories and important economic sectors yet within the capitalist domain.

In Chapter V we noted the difference, as between the programs of communism and socialism, in the extent to which control of access to the instruments of production has been, or is proposed to be, nationalized. We saw that, whereas the communist aim is to nationalize almost everything under a "dictatorship of the proletariat," the purpose of the socialists is much more limited. The distinction is of vast importance. For even granting that the initial program of the Labour government of Great Britain to nationalize the basic industries does not exclude a later broadening to include addi-

tional industries, we can readily see that the extension of nationalization may and probably will depend on how well capitalism works in the sectors not originally affected. This question may depend in the first instance upon the success achieved by the British in erecting a western European bloc functioning as a coordinated trade area. It may well depend in the last instance upon the help given by the United States in promoting and maintaining such a bloc.

Manifold and fateful are the world-wide consequences which will follow from American attitudes and decisions in the immediate future. They are by no means confined to the economic sphere, and cannot be avoided by a policy of doing nothing beyond our own borders. A decision to do nothing is still a decision. If it is made, our earlier analysis indicates that the milder, or "socialist," version of managerialism abroad will succumb to the more virulent, or "communist," version. This eventuality would obviously have a political portent for our own future fully as significant as its economic implication. On the other hand, if we could devise and pursue, while time still remains, a policy effectual in bolstering the sectors still capitalist within the European economies otherwise socialist, we would reap the immediate advantages of mutuality in foreign trade. We would check and ultimately, perhaps, reverse the encroachments of socialism upon economies once capitalist; and thereby prevent the rise of a European coalition of communist states.

Fortunately for such a purpose, if we choose to make it ours, the initial programs of nationalization in the European states having socialist governments do not involve goods or services which figure prominently in American foreign commerce. The Bank of England is of no direct concern to us, but British textiles are. Our interests would not be affected by the nationalization of British coal mines or even steel mills, for we have never imported or exported coal or steel from or to Great Britain. But the maintenance of British shipping on a capitalist basis may be vital to the maintenance of capitalist residues as a whole in that country.

What effect, of possible interest to us, might be anticipated from the adoption of democratic capitalism abroad? How might its adoption be induced—apart from setting an attractive example—and how might it be brought to bear upon the specific problem of the exchange of goods and services?

The effect, broadly speaking, of the adoption of democratic capitalism by other highly industrialized, democratic nations would be similar in nature to the effect of its adoption in this country, but much greater in degree. Even Great Britain, which of the other democracies once capitalist most nearly resembles the United States, is much more rigidly stratified into social and economic classes than is this country, and the income differentials are correspondingly greater. Therefore the sudden receipt by a ceramics worker in the Midlands, a Sheffield tool maker or a Clydeside shipwright of a fraction proportional to his base pay of one-third of his employer's net profit would be more sharply startling, both to him and to his employer, than would a similar event to his opposite number in Pennsylvania or California. By the same token, an opportunity to become a part owner, on favorable terms, of an enterprise which for generations has been controlled by the same county family or by a financial syndicate in London, would symbolize a departure from social convention as well as from customary economic relations.

Whether for these reasons British capitalists stand in greater or lesser need of democratic capitalism, or its equivalent, than do their American counterparts, is an internal question which it would be presumptuous for an American to argue. What is of legitimate interest to Americans, however, is that *if* Great Britain chose to undertake such basic reforms, the result would be the rapid reduction and ultimate elimination of wage and price differentials as between British and American industries which have heretofore served as barriers to free trade between the two countries.

Actually, the classic argument of American protectionists that our industries require high tariffs in order to compete with European goods produced at lower wage costs, has not

been borne out by the facts. In the mass production industries in which this country excels we have competed too successfully, selling more goods abroad than our customers could pay for. But the argument, however unfounded, has been accepted politically. It has resulted in the enactment of high American tariffs, has provoked retaliatory measures in Europe and therefore has accounted, in large measure, for impoverishment and low standards of living abroad which have been almost as harmful to ourselves as to the Europeans. The elimination of wage-price differentials through the adoption of like formulas for the distribution of annual corporate profits, therefore, would be an event of major significance to American business. It would be tantamount to adding, at least potentially, additional areas to that of the American Union within which neither economic facts nor fallacies have prevented the free exchange of goods.

This brings us to the second question stated above. Since the problem of adoption (again laying aside spontaneous imitation) is one of inducement, and improved international trade is the natural and, indeed, only legitimate objective we could seek to gain, it follows that the enlarged trade would be, in itself, the inducement. The technique would be very similar to that employed in gaining acceptance for the program in the domestic sphere. In part, indeed, it would be identical, for the corporation income tax law applies to alien companies doing business in the United States, to the extent that they do business here, and so is directly available as an instrument of inducement as far as it goes. It does not go all the way because foreign companies which trade here also trade in other countries in addition to their own, and hence are not within our grip to the same extent that domestic corporations are. Furthermore, the suggested special tax upon income realized on account of the holding of voting stock by an "ineligible" owner, would not be applicable to alien stockholders in alien corporations, whether they be holding companies or individuals.

There remains, however, the instrument of the tariff and

also the precedent of the reciprocal trade treaties, which made such excellent use of the tariff as a bargaining point. The indicated solution is, therefore, negotiation of one multilateral treaty or of a series of bilateral treaties (which later could be consolidated into one treaty) extending the democratic-capitalist techniques to international trade. Specifically, the treaty should provide for the duty-free admittance into the respective contracting nations of the products of any corporation organized in any of the nations whose net profits from *all* transactions (not merely those realized from exports) are divided in the manner and proportions called for by the democratic-capitalist formula, and whose voting stock is held exclusively by natural persons employed by such corporations. The treaty should also provide the machinery necessary to administer such an arrangement, consisting of an international agency to examine into the status of corporations engaged in trading under the treaty. To it would be delegated the power to impose conditions in the nature of guaranties, and to grant certificates of compliance covering each shipment made. Such a device would closely resemble and have some of the characteristics of a customs union, and could be set up to operate under the supervision of the International Bank for Reconstruction and Development called for by the Bretton Woods Agreements.

In order to insure that trade conducted under such a treaty would actually be and continuously remain free, it would probably be necessary to provide in the treaty itself against the possibility that a change of heart or of government in any of the contracting states might lead it to nullify the treaty's basic purpose by granting subsidies to its own nationals, or otherwise taking up once again the "beggar my neighbor" cudgel. It would be inconsistent with the prevailing concept of sovereignty to transfer to the administrative agency under the treaty full powers over international commerce. However wise in the abstract such an arrangement might be and however feasible it might become in the remote future, any attempt to write it into the treaty at the outset

would probably prevent its ratification. Nevertheless it should be politically feasible to include in the treaty a general statement of policy, and to implement it part way. The administering agency could be given the power to refuse certificates of compliance covering any export shipments made by a shipper found by the agency to have been the recipient, during the period in which production took place, of any bounty, subsidy or other economic advantage outside the framework of the treaty itself. Such a precaution would not prevent a contracting state from granting subsidies if it chose to do so, but it would prevent the benefited shipments from moving through free-trade channels, and would thus expose them to any tariff or other countermeasure the country of destination might elect to impose.

Such a treaty would not directly solve what remained at the international level of the problem of agricultural surpluses. But the anti-subsidy feature would tie in with a revamped AAA program leading to diversification in lieu of the present program, which pays artificially high prices for reduced one-crop production. Such prices, whether sugarcoated as "parity" or called by any other name, are actually subsidies, and their payment would make ineligible these high-cost crops for free movement under the treaty. Therefore, ratification by any state of the proposed treaty would strengthen its hand in developing a sound domestic program for dealing with agricultural overproduction. Actually, it is only at the domestic level that overproduction of any kind can be dealt with at all, in the present state of the world attitude regarding sovereignty. Hence any assistance in reaching a constructive local solution, however indirect, which can be derived from an international trade program, however generalized, would be important.

In emphasizing the domestic nature of the farm surplus problem no disparagement is intended of the view advanced at the Hot Springs Conference on Food and Agriculture[1]

[1] For a discussion of the proceedings and accomplishments of the Conference, see *America's Role in the World Economy* (pp. 107-111, 116-118), by Alvin H. Hansen. New York: W. W. Norton & Company, 1945.

that international agreements should be entered into for the accumulating and holding of buffer stocks of the most important agricultural commodities. If an authority were set up to buy excess production in bumper years and to hold it for sale in years of scarcity, no doubt much could be accomplished towards stabilizing supply. The tendency to tie the operations of such an authority to predetermined prices, or to endow it with power to impose quantitative controls, also appeared in the Hot Springs discussions, however, despite the foreseeable consequence that the *status quo* would thereby be perpetuated. So we are brought back once again to the point that the only real solution for the agricultural problem lies in revitalizing in the first instance other sectors of the economy, so that demand for farm products may catch up to normal supply and ultimately exceed it. Very clearly, maximum expansion of the total demands for agricultural products is a more imperative necessity than the similar expansion of other demands, *since agricultural production is less controllable* than that of manufactured goods. Hence the peculiarly vital importance, from the standpoint of agriculture, of such an international program as that under discussion.

Would Great Britain and a western European socialist bloc be apt to consider favorably entering into a treaty of the kind we have been considering? The answer would seem to depend upon the then purposes of socialists, communists and capitalists in the countries concerned, in the light (we must assume) of convincingly successful democratic-capitalist operations in this country.

To the socialists, the method of organization of the economic sectors still capitalist would seem not to be a matter of vital concern, unless it was their secret aim ultimately to nationalize these sectors also. If they harbored no such secret intention, then they could be expected to approve any scheme demonstrated by experience to be capable of strengthening the capitalist sectors and hence the totality of the particular state's social dynamics. If the socialists were in political power, either alone or as a dominant element in a coalition govern-

ment, their approval would be decisive, unless overborne by opposition emanating from other quarters.

The aim of the communists is to establish a "dictatorship of the proletariat" over virtually all instruments of production. Therefore their opposition to democratic capitalism, both locally and as embodied in the proposed international trade treaty, would be intense and possibly violent, if they thought violence had a chance of success.

There is reason to hope that the capitalists remaining in western Europe would be more nearly uniformly in favor of the proposal than would have been the case initially in this country. So far as the little capitalists are concerned, the *petite bourgeoisie,* endorsement may be assumed. But also the finance capitalists of Europe could be counted on, to a much greater extent than in America, because they have already been ousted as the ruling class in a political sense, and would be much more alive to the dangers of imminent economic obliteration as well. Even among the rulers of the heavily cartelized, finance-capitalist combines of England would be many who would see the handwriting on the wall in the emergence of democratic capitalism in the United States. They might not like it any more affirmatively than their American brothers had liked it. But they would see in it the prospective withdrawal of official American support for their own operations, and would be likely to suffer the extension of the program to their own country as a lesser evil than the threat either of more socialism or of ultimate communism.

This is not to argue that the finance capitalists would line up foursquare behind the democratic-capitalist proposals. But at least a split in capitalist ranks could be expected, with such opposition as emanated from finance capitalists gradually succumbing to the views of the production men and distributors, to whom the prospects of entering the American market on equal terms with Americans would be enticing.

We see, therefore, that the chances of obtaining the approval of European governments would depend upon the ability of socialists and capitalists to outvote (and restrain, if

necessary) the communists. If the question were presented in each western European country without regard to its presentation in all the other countries, an affirmative answer might not be forthcoming in all cases. But the question would not arise in such a context of isolation. In Great Britain, where communism is weak, the support of the other parties and classes would insure a democratic-capitalist victory. That would certainly affect the outcome among the continental states, quite apart from the assumed economic rapprochement between Great Britain and the other countries making up a western European bloc.

Would American public opinion stand for the negotiation of such a treaty? Again probably yes, if the reorientation of economic outlook naturally incident to a successful experience with democratic capitalism in the domestic sphere had made sufficient progress. The fact that only those foreign concerns would gain free access to the American market which operated on the same basis as American concerns, made the same profit distributions and therefore encountered the same relative costs, would dispose of the classic protectionist argument in opposition. And the fact that, under the treaty, American concerns would similarly gain free access to foreign markets—which would get progressively stronger as the standard of living rose in other countries under democratic capitalism—would have a good chance of tipping the scales of even business opinion in this country, especially as business would not then be organized as it is now.

Both here and abroad the international question would be affected, perhaps decisively, by the general political situation then prevailing and especially by the existence and strength of tensions between socialist states and communist states. The greater the tensions, the stronger the feeling among the socialist democracies of sharing a common destiny with democratic-capitalist America, and the greater the likelihood of their fashioning a common social system in the light of a common danger.

XXIV

Economic Contacts with Noncapitalist Areas

THE two major economic problems which would confront a world bloc of democratic-capitalist states would be the conduct of trade with colonies, mandates and other hinterland communities, whether or not technically sovereign, in which capitalism is not fully developed; and the conduct of trade with communist states. In practice these problems, though distinct, would tend to merge. Communist Russia has already declared, at the San Francisco Conference, its interest in the achievement of independence by peoples heretofore kept in quasi subjugation by capitalist powers. It has actually initiated, in the Middle East and elsewhere, a bid for ideological and economic leadership.

In their future dealings with the underdeveloped areas, with or without any aid from democratic capitalism, the democracies will have to reckon with increasing competition for controlling influence in those regions from the Soviet Union. The past record of capitalist exploitation in its historic preserves holds out no hope that its projection into the future will be tolerated by the peoples concerned. We need not presuppose the repetition of such crude maneuvers as the dispatch by France of Senegalese reinforcements to sovereign Syria and The Lebanon following the 1945 football game riots. Even a relatively enlightened policy, such as has been pursued (for the most part) by Great Britain in India, can-

not succeed so long as it is coupled with a determination to deny independence, whether or not the demand is more or less reasonable than the refusal.

In seeking a new and constructive basis for the maintenance and expansion of economic relations with the economically backward areas, the philosophy of democratic capitalism should be able to adapt itself to the requirements of the task. Since democratic capitalism is fundamentally opposed to any form of exploitation, its adoption internally by the western powers should enable them, respectively, to make a formal declaration of intention to assist the peoples under their hegemony to achieve independence at the earliest practicable dates, in some cases immediately. Such declarations, preceded by basic reforms in the western countries themselves, should go far towards changing the attitudes towards the powers of the subject peoples, and win from them a certain measure of cooperation in lieu of passive resistance. Such a change has taken place in the relations between the United States and the Philippines and was discernible promptly after enactment of the Philippines Independence Act of 1936.

Naturally, a declaration of good intentions would soon lose its force, notwithstanding the seeming promise of a simultaneous adoption of democratic capitalism by the "mother country," unless something tangible were quickly done to implement it in the colony or mandate. In many cases political steps would have to be taken before a new economic dispensation could be inaugurated. These steps would look towards the early establishment of an independent government, whether local conditions permitted it to be founded immediately upon the western concept of democracy or not. Of course care should be taken that the newly created or to-be-created government should reflect the local culture as accurately as possible. That, rather than a close approximation of democracy based on universal suffrage, would be the initial desideratum. Once such a government were set up, or where this is not practicable, some form of trusteeship agree-

able to the local populace were created to prepare the way for self-government, a foundation would have been laid for the adaptation to local conditions of the program of democratic capitalism. (Where an undeveloped but sovereign state was involved these preliminary steps would not, of course, be required or tolerable.)

The program of democratic capitalism would have to be adapted rather than literally applied because, in the majority of cases, the economies of the backward areas are of the primitive extractive type. Whether involving mining or agriculture, they employ large numbers of native or coolie laborers having no education and an extremely low standard of living. It would be manifestly impossible to foster employee-ownership among them immediately. Even to pay employment dividends comparable to those payable in highly developed countries would merely corrupt and debase them. Yet a continuation of former practices in plantations and mines owned by the white man would simply be a perpetuation of the *status quo,* the very thing against which rebellion and unrest have been directed.

One more factor in the situation of the backward areas further differentiates their problem from that of the highly developed areas. The primitive economies are not only undeveloped but also lacking in diversification. The characteristically single crop or raw material they produce is thus at once (a) the sole source of income, which consists almost entirely of foreign exchange, and (b) the sole source of a much-needed capital formation. The consequence is a nearly complete dependence upon imports for the necessities of life. Both on this account and because the markets for the one staple product are situated abroad, the economy as a whole is excessively vulnerable to foreign crises and other vicissitudes. The consumption-investment income problem is the opposite in these regions from what it is in the developed countries. Instead of suffering from underconsumption and excessive investment, the colonies suffer from excessive consumption and underinvestment. To the extent that native

upper classes control the economy, they spend the major part of the national income on imported luxury goods. To the extent that foreigners control the economy, the major part of the national income is siphoned off to foreign countries.

What is most needed in these regions is far-reaching development by projects aimed at diversification, including at least a certain amount of light industry, plus extensive programs of education and public health. The margin between production and consumption must be increased so as to develop internal savings, thereby realizing required capital formation, and imports must be substantially redirected from consumer goods to capital goods.[1] The bare statement of these minimum requirements is sufficient to indicate the gravity of the challenge they pose to the heretofore exploiting western powers in respect to overcoming a competing bid for influence from Soviet Russia.

Quick and orderly development of natural resources in virgin or semi-virgin territory, with capital distilled as needed out of current income, is pre-eminently a Russian specialty. And the regimentation of labor which this implies, as well as the totalitarian organization of political power—in short, the communist techniques—are not nearly so repugnant to primitive cultures as they are to those with democratic traditions. Clearly, a well-coordinated plan will be called for in each instance, whether sponsored by Russia or by the western empires. The latter will be at a psychological disadvantage, *vis-à-vis* the Soviet Union, in preparing such a plan quickly and promoting it successfully. The task demands not only a renunciation of the old exploiting practices; it also involves a substantial compromise of the revitalized ideal of individual initiative and responsibility, as reflected in the domestic program of democratic capitalism in each instance.

Yet the program, as well as the long-range ideals, of democratic capitalism would not be powerless to cope with this very special situation, so long as its special character were

[1] Based upon Professor Hansen's analysis in *America's Role in the World Economy, ubi supra*, pp. 183-187.

kept firmly in mind. A trusteeship, interposed between each corporation and the vast majority of its (native) employees and (mostly) nonnative stockholders, could perform an economic function analogous to the political function delegated to pre-sovereign trusteeships designed to prepare the way for self-government. To such an economic trusteeship in the case of each corporation could be assigned the common voting stock for voting purposes, the dividends, however, to be paid to the beneficial owners, who at the outset would be the present owners. (The method of inducing consent to such an arrangement would be the standard one under democratic capitalism of incentive taxation.) The officers, and some of the employees immediately eligible by reason of education and financial resources to become voting stockholders in the ordinary manner, should be allowed to do so free of the trust. The remaining employees, if, as and when becoming eligible, should be encouraged to purchase stock, the former owners being given a choice of nonvoting securities with or without cash, as in the conventional case. Meanwhile that part (in most cases, a major fraction) of the employment dividends which could not prudently be paid to the (native) workers would be paid to the trusteeship instead. The share of employment dividends directly payable to workers and the share payable to the trusteeship, respectively, should not be determined arbitrarily, but according to job categories; the most responsible jobs receiving 100 per cent of such dividends directly.

The funds in the hands of each trusteeship would constitute one of the important sources of new capital formation required by the society in its evolution from a primitive condition. The other chief source would be *ad valorem* or occupation taxes, royalties, etc. payable directly to the government, but not income taxes imposed on the primary producing corporations, since exemption from such taxes is the basic technique of democratic capitalism. The various corporate trusteeships would be empowered to invest their trust funds in new local enterprises called for by the development

plan, or in government bonds to the extent that they were called for by the plan. ("Government," in this connection, refers to the legally constituted local authority, whether or not sovereign.) The securities so acquired by the trusteeships should not, of course, be reflected in the book value or the market value of the common stocks, since they would have been purchased by employment dividends earned by workers who, for the most part, would not be stockholders. The latter should receive, as evidence of their beneficial ownership, certificates redeemable in cash or in voting stock upon liquidation of the trusteeship as hereafter described, and meanwhile should entitle the holder to cash dividends, in the manner of a beneficiary of an investment trust.

The development plan should emanate not from the government alone, but from an Economic Council, representative of both the government and the trusteeships in the proportions of their respective cumulative investments in the development program. The Council would be expanded as new enterprises became established under the plan, either through the investments of the original trusteeships and of the government, or through the investments of new capital from the outside. By dualism of this sort in economic development, the government would be prevented from exploiting on its own account, or in behalf of the individuals who attained political power from time to time, enterprises founded by the capital and labor of others. That capital and labor should be represented, as accurately as possible, in the composition of the trusteeships themselves.

On the basis of democratic capitalism's initial premise that the respective contributions to an enterprise of capital and labor (and of the consumer, but his trade dividends take care of his interest) are presumptively equal, the trustees should be selected in each case with a view to equal representation of the investors and of the workers. Voting for trustees should be by shares of stock in respect to the one-half of the total number, representing capital, and *per capita* in respect to the other half, representing labor. At the beginning of the period

of transition, such a formula would give a slight preponderance, in the case of an enterprise wholly owned by foreigners, to the foreign interests, since foreigners would also appear in the upper categories of managers and employees. But in the case of new enterprises capitalized largely by government revenues and by the employment dividends of native workers in the older enterprises, there would be native preponderance in the corresponding trusteeships from the outset. And the older trusteeships would shift to native control gradually, as native employees became stockholders.

The economic trusteeships, like any political trusteeships brought into being, would serve the needs of the transition period only, and would disappear when it had been completed. The method of gradual liquidation would be geared to the progress of the educational programs for which every development plan would provide, and the rise in the standard of living which would begin as the economic phases took hold. The latter would require the upward revision of the proportions of employment dividends payable to the workers in cash, including past accumulations, toward 100 per cent. The former would qualify workers first to buy stock, and thereafter to vote it for themselves. The funds available to the trusteeships for investment would thus decline, and so also would the number of shares of employee-owned common stock held by the trusteeships in voting trust. Eventually, all the trusteed stock would have been released and all the investment funds would have been distributed.

When the trusteeships had all come to an end, so would the Economic Council, for there would be no need of a separate agency containing only government representatives. Moreover, by that time the development program would have been completed, or virtually so. The local interpretation of both democratic capitalism and of political democracy would have become firmly established. The period of tutelage would be over. During its life, the Economic Council, rather than the government, would normally be the agency primarily concerned in dealings with the International Bank of Re-

construction and Development contemplated by the Bretton Woods Agreements. The same would be true, at least in part, of dealings with the Social and Economic Council to be set up pursuant to the decision of the UNO Assembly. On the other hand, it would be the government of the erstwhile dependency, and not the Council, which would deal with the International Monetary Fund proposed at Bretton Woods, since adjustment of exchange rates and of balance of payment positions in international trade are the prerogative of government, despite their economic overtones.

We have observed that the barter method of carrying on foreign trade, which is and naturally would be standard for any society operating on the basis of a centrally planned economy, gives undue advantage to the strong over the weak, especially if they are geographically near to each other, as in the case of Germany and the Danubian states. It is also true that any capitalist trader is at a fatal disadvantage in competing with a managerial state in the markets of a third country. The managerial state can mobilize its entire economic resources for the struggle if it so desires. The capitalist trader has only his own resources to fall back on, unless he persuades his government to enter the struggle itself, by paying him subsidies or otherwise, in which case capitalism is, to that extent, abandoned. The problem confronting the capitalist state in trading with the autarchic managerial state is, therefore, to find and have available at all times an alternative market, for sales or purchases, to which it can turn whenever and as soon as it appears that the managerial market is unhealthy for it. The problem of competing with managerial goods in the markets of a third country has no solution short of the drastic one of an agreement, to which the supposed trader, the third country and perhaps other capitalist and semi-capitalist countries would be parties, excluding absolutely from their respective markets any goods offered for sale at prices below the cost of production and distribution.

Comprehensive treatment of these difficulties presupposes

a close collaboration among the states retaining capitalist attributes. Only such collaboration could produce an agreement outlawing cutthroat trading or "dumping." Only close collaboration, in effect throwing all the capitalist markets together, could provide the continuous assurance of alternative buying and selling opportunities which the exposed and necessitous trader requires if he is to maintain his independence of the wholly managerial markets. For the development of such collaboration, democratic capitalism offers the kind of foundation required, namely, unfettered trade opportunities for all traders having a common economic philosophy and employing uniform business methods. The very establishment of democratic capitalism on the international plane would have been a signal act of collaboration, in comparison with which subsequent acts, as circumstances might demand, would be relatively easy.

It goes without saying that a wholly managerial state would observe the growth of this kind of collaboration with marked disfavor, seeing in it the erection of a power bloc directed against itself. From its own point of view this would be understandable. The advantages of capitalist collaboration would commend themselves only to those who believe in the expansion of free markets and in the promotion of equality of access to them. Those whose purpose it is to expand a closed economy, and not entirely or even primarily for economic purposes, would naturally and properly be disappointed at the growth of a free-trade area beyond their own frontiers, able and willing to checkmate their attempts to infiltrate any of its constituent parts.

In capitalist and even socialist eyes, however, such a development would not be hostile in more than a defensive sense. Managerially produced goods would not be excluded absolutely from capitalist markets, except when introduction was sought in pursuance of "beggar my neighbor" policies directed against capitalist producers. Managerially produced goods, to be entitled to import free of duty, would have to be the product of a "factory" whose entire net earnings were

divided in the familiar way among owners, workers and customers, and whose control was vested in its employees; and the managerial state would have to extend the same privilege of duty-free admittance to goods produced under like circumstances by capitalist producers in the other country in question. Naturally, no completely managerial state could comply with such conditions and remain completely managerial; but there would be no discrimination inherent in that fact, since these would be the conditions imposed under democratic capitalism upon capitalist producers themselves, both domestic and foreign.

XXV

The Atom and the Superstate

THE argument of the two preceding chapters, especially of the concluding part of Chapter XXIV, will offend the advocates of an immediate world union of delegated sovereign powers. Proponents of this ideal will point out, with considerable plausibility, that any recourse to balance-of-power politics among fully sovereign nations is certain to eventuate in the destruction of civilization, if not of the physical planet itself, through atomic fissions we know of or others yet to come.

The newly-acquired scientific basis of these views (in themselves far from new) certainly demands more attention than we can give it here. Nevertheless it may be questioned whether the recommended creation of a superstate in the immediate future, irrespective of the cultural and social differences now dividing mankind, would really eliminate the danger envisaged, even if feasible. The old doubts as to feasibility, in any case, retain much of their pristine force.

The task of governing the entire world in any comprehensive way from a single federal capital would be so complex and gigantic as to stagger the imagination fully as much as the prospect of atomic bombardment. This is conceded, and the proponents of world union limit their argument to the delegation of only a very few sovereign attributes, even the single one of making war or maintaining an armed

force (police force). War is not made, however, by armed forces acting alone. War is made by armed forces plus industrial production plus reservoirs of trained man power plus lines of communication binding them all together. Clearly, therefore, the argument does not contemplate actual employment of an armed force. Its rationale must be that the mere existence of such a force (armed, we may assume, with atomic ordnance) would suffice to keep the peace.

The position taken might be persuasive if the world union's monopoly of armed power could be counted upon to continue permanently, or at least indefinitely. This presupposes, however, a power vacuum in all the constituent regions of the union. But such a thought is contradicted by the concession that all attributes of sovereignty save the one that has been delegated will remain vested in the constituent regions. Since the regions, and not the union, would have jurisdiction over the sources of raw materials, the instruments of production, the reservoirs of man power, the means of transportation and communication, etc. it is obvious that any one or more of the regions could secretly prepare for war and wage war successfully at any time thereafter. The physical impossibility of preventing such a development sufficiently appears from the failure of nazi Germany, with much more power than that envisaged for the world union, to prevent the organization and arming of resistance groups throughout occupied Europe.

The inherent weakness of the world union argument consists of a fundamental misconception of the problem. It is not *merely* the fragmentation of sovereignty among the several national states of the world which is responsible for wars. Much more causative is the fact that the desires both of individuals and of organized societies tend to conflict, and that various desires at various times become stronger than the contrary desires of the same individuals or groups for peace, safety or life itself. When a particular desire reaches a death-defying intensity, it cannot be sublimated or suppressed by the threat of death. This observation is a commonplace of the

history of organized societies as well as of individuals. A society preferring death to a feeling of insecurity in life, and a society preferring death to the loss of individual freedoms, have been, and could again become, capable of self-immolation upon the altars of their respective ideals, however irrational they might seem to nonbelievers. Such a society would be no more deterred by the thought of atomic bombardment than an individual would be by the thought of the hangman's noose, were he driven by some inner compulsion to homicide.

The true solution does not consist exclusively, or even primarily, of effecting a formal rearrangement of the abstract attributes of sovereignty. Such rearrangements have been made countless times in various regions, usually by force but rarely, and notably in the United States, by consent. Consent freely given, and implemented in 1789 as given, did not prevent the outbreak in 1861 of a civil war which was the bloodiest and costliest armed conflict our society had seen up to that time. The true solution consists of nothing less than fashioning a social system which will minimize the tensions and hence the causes for which men are willing to fight and die. Naturally, the greater the area and the larger the number of peoples which could be included within such a system, the farther it would go towards reducing the chances of external war. If it went too far, however, as by including peoples to whose impulses the system would be insensitive or insufficiently responsive, the problem of war would not have been reduced. It would merely have been transferred from the external sphere to the internal sphere.

The difficulty inherent in the task of reconciling impulses, or reducing tensions, increases both with the absolute number of individuals involved and with the variety of their backgrounds, the diversity of their cultures. Both the Soviet Union and the United States have achieved considerable success in undertakings of this kind of continental scope. They are, in addition, the two most powerful national states existing today. If they would pool any of their sovereign preroga-

tives (and keep them pooled) we would have, for all practical purposes, a world union, for whatever states might choose to remain outside would be relatively insignificant in terms of power. Is there any reasonable prospect that the two societies which have most nearly assimilated many diverse racial and cultural strains, will merge their sovereignties, in however limited degree? This question will be visualized more clearly if we separate from it two variants.

We may safely assume that the Soviet Union would gladly merge its sovereignty with those of any number of other states (by incorporating them into the U.S.S.R.) which were ruled by communist governments, were organized on the Soviet model and pursued identical or parallel objectives. Nobody would suggest, however, that the United States would willingly transform its own institutions and redirect its national energies in such a manner as to achieve a merger with Russia on an organic basis. On the other hand we may again assume, though not without greater doubt, that if the United States should once more become clear as to just what it does stand for, it would welcome into a common fold controlled by itself any number of other states standing for the same things in the same way. Again, nobody would suggest that the Soviet Union would willingly enter such a fold.

But the merger of sovereignties in any of their aspects is *per se* an organic transformation. If it cannot come about through direct assimilation, then it can come about, if at all, only through the joint creation of an artificial third entity, such as the hypothetical world union. With very limited powers and no resources of its own, the union would be a bodiless head and could not stay alive, for the reasons we have already considered. Resources sufficient to support the delegated powers would necessarily be very extensive and could come only from one or both of the member states. Either both states would deny access to the resources needed, in which case the union would die; or the state granting access first would in effect take over the union, in which case the other state would immediately secede.

If the pooling of sovereign prerogatives is not feasible, there remains the idea of collaboration upon a level below sovereignty. This also has been earnestly advocated, largely on the strength of wartime experiences in collaboration. But there is a substantial difference between the possibility of collaboration while two states are engaged in fighting a common enemy, and the possibility of continuing the collaboration after the common enemy has been defeated. While the war continues, defeat of the common enemy is the prime objective of both states. Collaboration under such circumstances is easy, almost automatic. After the victory has been won, the foreign policies of the two states revert to whatever they were before, or to that plus any enlargements or modifications suggested and rendered possible by the victory.

We have already experienced the contrast between the wartime and postwar atmospheres in our dealings with the Soviet Union. The Yalta Declaration, promulgated while the German war continued, contained a seemingly explicit provision for the reconstitution of the government of Poland. Yet at the San Francisco Conference, convened after Germany had been defeated, that agreement could not survive differences in interpretation, in consequence of which we refused to invite the Lublin-Warsaw government to send a delegation to the Conference. This was a very petty matter, seemingly easy of solution; yet it caused a major diplomatic headache for many months. We have concluded more far-reaching (and far more general) international agreements, including the Atlantic Charter, to which Russia adhered while at war. But how can the glittering abstractions of the Charter conceivably be implemented, so long as they remain abstractions? How can they be other than abstractions until the "Four Freedoms" come to mean the same particular things to Russians and Americans, Englishmen and Chinese?

The possibility of effective, peacetime collaboration between Russia and the United States is limited to the discovery of some practical middle ground between Russian notions and values and American notions and values. But interna-

tional dealings are unthinkable except in terms of the needs or aspirations of the respective national societies involved. The idea of a compromise "middle ground" therefore comes right back to the requirement that a compromise social system be evolved, mutually acceptable to Americans and Russians in their domestic spheres.

Theoretically, such a system as we have been considering in this book could be put forward as a possible compromise between the recent historical systems of the United States and of the Soviet Union. It is capitalistic and yet it holds fair promise (in a state of maturity) of ultimate approximation to Marx's dream of a free, classless and international society. Obviously, however, the chances of adoption of democratic capitalism by the United States and by other nations with capitalist residues and democratic traditions are immensely greater than the chances of adoption by the Soviet Union, despite the congeniality of democratic capitalism's social tendencies to the professed aims of Marx and of the Soviet regime. This is so for at least three fundamental reasons:

1. The ideologies of democratic capitalism are essentially but a reiteration of the classic ideologies of historical capitalism, and by the same token are in direct conflict with those of Marx. Making full allowance for the capacity of the communist state to turn ideological handsprings whenever the occasion requires, we must reckon with the theoretical existence of some limitation upon that capacity. Such a limitation would surely be encountered at the point at which communism itself would be scrapped, and with it the ideological "social cement" which has held the communist state together. Transformations in the intellectual climate of a society so drastic and thoroughgoing have heretofore come about only by revolution or conquest; never by voluntary acceptance.

2. Democratic capitalism would destroy the ruling classes both of finance capitalism and of communism. In the western democracies the disintegration of the finance-capitalist ruling class is already well advanced. In Soviet Russia the commu-

nist rulers are at or still below the crest of their power. No ruling class in history has willingly abdicated, and no individual dictator, either, except that ancient Roman, Cincinnatus, who is famous to this day because he is unique.

3. There would be enormous practical difficulties in the way of making Russia over into a democratic-capitalist state. Even in our own country and in the other democracies the difficulties would be considerable; but at least in countries still partly capitalist many of the instruments of production are organized on a capitalist basis, and the citizens enjoy a really free, universal suffrage. No living persons in Russia (except some, perhaps, in concentration camps and forced labor battalions) have had any comprehensive experience with capitalism. If the managers and workers of the Soviet factories were organized as stockholders of private corporations they would not know what to do. All their planning has been done for them by the respective Commissariats. Neither would the Soviet citizens have any comprehension of trade unionism or political democracy. A transitional regime might be invented, but it could scarcely be operated by Russians. They would not understand it. And it is not likely to be operated by outsiders.

Actually, such a "middle ground" social system is not "middle" enough. It is too much our way and too little the Russians' way. Any other conceivable system, designed to appeal to the Russians, would of necessity be predominantly managerial and hence repugnant both to the traditions and to what I conceive to be the abiding aspirations of the western democracies.

There seems, therefore, to be little hope of finding a formula for international collaboration which would stretch far enough to include the aims and techniques even of democratic capitalism on the one hand and of out-and-out managerialism on the other. By way of contrast, we have seen that the differences existing between the United States and Great Britain (with its European neighbors), though always considerable and now widening with the advent of socialism, do not

absolutely preclude the formation of a democratic-capitalist bloc, should a beginning be made here.

We are now in a position to answer the criticism directed against the formation of such a bloc with which we began this chapter, namely, that any recourse to balance-of-power politics will precipitate war, probably the last war of western civilization.

The first part of the answer is that if war would be precipitated by a revitalizing of western capitalism and democracy, it will not be avoided by a failure or omission to take steps in that direction. The real purport of such a criticism is that the most fully developed form of managerialism (Russian communism) regards *any* form of western democracy and capitalism as hostile *per se*. If this is so, then obviously the communists will complete in their own good time (unless hurried by what we do) what the nazis began: the final liquidation of western democracy and capitalism. In that case, we of the West are confronted by the two alternatives described by Charles Carroll, upon signing the Declaration of Independence, as "hanging together or hanging separately."

The second part of the answer is that, if war comes *because* capitalism and democracy have been revitalized, there would be a substantially greater chance that these basic institutions of western civilization would survive the test than there could possibly be if they had remained decadent and divided.

Perhaps the decisive manifestation, from a military standpoint, of the social dynamics of international democratic capitalism, might be the formation of the very kind of political federation which our earlier analysis has denied as an imminent possibility for all states. The basic reason for recognizing this possibility in the more limited sphere is the converse of the reason for denying it in the larger sphere. It is the presence, as against the absence, of a more nearly homogeneous body of cultures and traditions; also and even more important, of a common body of principles and techniques of daily living. By introducing into western civilization virtually identical institutions of decisive economic significance,

democratic capitalism could lay the groundwork for a common experience in action. Out of this common experience could emerge both a harmony of interest and policy, which would identify the sovereign attributes to be pooled, and a common perception of internal need and of external danger, which would supply the necessary motivation.

The last factor mentioned—perception of external danger—is, by the test of history, of crucial importance. The thirteen original American states had, as colonies, a common history, common culture and fundamentally identical institutions. Yet the rivalries, squabbles and bickerings among them kept them apart until the common peril of the American Revolution impelled them to adopt the Articles of Confederation. The Soviet Union, heir apparent though it was to all Czarist territories, did not succeed in uniting until foreign invasions in 1919 and 1920 helped to override secessionist trends in a number of key republics. In the catastrophic days of June, 1940, the Churchill government of Great Britain proposed outright political union with France on a permanent basis. The offer came too late, but it did come—in the context of a supreme and all-compelling crisis.

But while mutual appreciation of mutual external danger may be indispensable in bringing about a federation of two or more sovereign states, it will not alone suffice to accomplish such a result. Great Britain was still in dire peril in June, 1941, when Hitler attacked the Soviet Union. Although Churchill immediately pledged maximum material aid to Russia, he did not offer or solicit an offer of political union. Indeed, he was careful to couple his pledge of aid with a statement that he did not retract anything he had previously said about communism. On the eve of Stalingrad, Russia was in such straits that the government was forced to abandon Moscow, its nerve center, and flee to Kuibishev. But the constant pleas for a second front were never linked with pleas for a superstate.

From the evidence before us, we are justified in drawing two general conclusions:

First, if a union of even two of the existing national states ever does come into being by consent (i.e., not through conquest or revolution), it will follow, not precede, some experience of systematized collaboration on a permanent basis which alone would make it meaningful.

Second, such a union would be expedited, even rendered possible, by joint awareness of a common, external and overwhelming danger.

In the shadow of the atom, a superstate might grow up, if a basic community of interests, ideals and working techniques had previously been established. Hence the superstate could *not originally embrace all of the present national states. The* lesser union, therefore, would be motivated, not by hope of suppressing the atom, but by the desire to make a common use of it in case of need. Human nature being what it is, the principal immediate significance of atomic fission lies in the appeal of its vastly greater efficiency over that of molecular fission, which goes by the name of chemical explosion. To statesmen contemplating war, atomic fission will present the risk of more destructive retaliation to be weighed against the advantage of a more destructive initiative. This is the same sort of calculation they have always made throughout history. It has merely been moved upstairs to a higher scientific level, just as on earlier occasions it has been similarly moved by the perfection of the crossbow, the invention of gunpowder, the development of rifled artillery, the tank, the airplane, guided missiles, and so on. To a population in a frenzy, or susceptible to being whipped into a frenzy, death by the atom will be no more terrifying than death by the molecule.

All of this may seem very precarious. But then, no responsible person has ever argued that this world is anything but precarious.

PART SEVEN: A REORIENTED AMERICAN POLICY

XXVI

Interim Domestic Policy

IT HAS been needful to assume for our inquiry the existence of a world hospitable to capitalism in general. That, however, will be less and less the fact if the theory of the managerial revolution is valid. In order to determine, therefore, whether democratic capitalism has a chance of attaining practical significance, whether it is an historical might-be and not merely an historical might-have-been, we must relate our discussion to the actual world situation.

In the light of our analysis of the recent past and our prognosis of the near future, it would appear that no capitalist dispensation could succeed in stopping and reversing the managerial trend, whelped by the First World War and grown at least to powerful adolescence in the Second World War. We were assuming, however, in Chapters II-VI, that capitalist society would continue in its accustomed ways; that it would attempt no constructive counteraction that would involve an alteration of its own structure and patterns of conduct. Whether or not time still remains for a determined capitalist reformation is a question not foreclosed, therefore, by our earlier discussion of the future.

It is very clear that for democratic capitalism to succeed, it must be inaugurated during a period of rising prosperity.

Only while there are substantial corporate net earnings over a period of several years in succession could the distribution formula provide the clinical data necessary to a determination of the proper ratio of investment income to consumption income. I repeat that the suggested initial percentages of 33.3 are based only on a deduction of logic, not of economics, and probably will not be supported by expert preliminary analysis, to say nothing of actual trial. It would then be necessary to enact and test a different distribution, which could similarly or oppositely err. We can be right the first time only by luck. Several years—five or six at least—would be desirable for the kind of experimentation needed to provide reasonable assurance of the proper formula.

It is likewise obvious that only in a period of rising prosperity could the recapitalization of the basic corporate units of production be accomplished successfully. Not only must some time be expended in educating industrial and other corporate employees concerning the meaning of stock ownership. They must have the necessary financial means if they are to become stockholders. For the large majority of them employment dividends and dividends on the stock being purchased would be the chief, if not the only, sources of purchase payments.

In our estimate of probable developments we envisaged a post-reconversion boom in the United States. Such a boom would afford the sequence of prosperity years necessary for the launching of the new program, but it must be admitted that the intellectual climate of a boom period would not be conducive to the undertaking of this or any other reformist experiment. When "everybody" is making money, no reforms are needed; what is more to the point, none ordinarily will be tolerated. Public opinion would not welcome or heed prophecies of disaster. Even if a faint half-memory of October, 1929, opened the minds of the elderly and middle-aged to the possibility of the new prosperity's coming to an end, few even among them would take seriously a warning that this particular boom would mark the last milestone on the

power already have proceeded so far that the economy would have been undermined once again, and for the last time under capitalism in any form?

Assuming that reconversion may be completed about September 1, 1946, indications point to vigorous industrial activity, involving sufficient production and employment to constitute a potential boom, by January 1, 1947. On the strength of these suppositions, the boom would be five years old on January 1, 1952, the assumed effective date of democratic capitalism's revised corporation and personal income tax laws and complementary legislation.

If the post-Second World War boom lasted as long as the post-First World War boom, it would have five years of life before it on January 1, 1952. Of course it would be folly to reason from the boom of the 1920's to the anticipated boom of the 1950's, since conditions in many important respects would be widely different. The cost of the recent war in blood and treasure and the amount and distribution of property destruction it caused are vastly greater than was true of the war of 1914-18. Then, too, the national debt is immensely larger now than it was in 1919, not only absolutely, but in relation to the productive capacity of the nation. Finally, the rival social system inaugurated by the managerial revolution is today powerful and very definitely expansive, whereas in 1919 it was in its infancy and seemed sickly. On the whole, it seems more reasonable to suppose that the next boom will last a shorter time than that which followed the First World War.

It is easy to see that democratic capitalism or any other program for a capitalist reformation would be hard pressed for time even if enacted as early as mid-1951. It was for that reason that I remarked at the end of Chapter I that the following discussion may be too late to serve a useful purpose. I am bound to assume the contrary, however. I am further bound to assume, not only that democratic capitalism will actually become the keystone of a revised American policy, but that the same administration which adopts it as part of

its platform will guide other sectors of policy in the desired direction even before the program can be enacted; indeed, from the beginning of its tenure of office. It is obvious that if the course of our national destiny is to be changed successfully, many things will have to be done before, as well as after, the passage by Congress of the basic legislation we have been considering. In a general way we have explored some of the steps to be taken after passage. But the steps to be taken before passage are equally important and in one respect more so, since upon them may depend in large measure the creation or enlargement of the time and space necessary for the launching and early maneuvering of the new policy. Neither domestic nor world events will stand and wait for the experiment.

The chief danger in the domestic sphere facing an administration bent on ushering in a democratic phase of capitalism, will be that internal opposition to the program on the part of still powerful finance-capitalist interests and their lobbies in Washington, plus the march of economic events toward a boom, will delay enactment of the program by Congress until a boom in fact ensues and is followed by a catastrophic depression. Clearly, therefore, the indicated course of action is to keep the level of production and employment as high as possible for as long a time as possible, even if recourse must be had to artificial measures not abstractly commendable; but at the same time to prevent so far as possible inflation of prices and credit, speculation in real estate, commodities and securities, and other symptoms of past booms.

We suspended our examination of the domestic situation at the point at which a wave of strikes in support of demands for increased wages had paralyzed a number of the most important sectors of industrial production on the threshold of post-reconversion activity. We then assumed that the strikes would be settled by agreements increasing wages, which in turn would bring about increases in prices. The machinery of settlement might be provided by President Truman's la-

bor disputes bill now before Congress, if promptly enacted, or by unofficial fact-finding boards appointed by analogy to the bill, in anticipation of its passage. We cannot be sure, however, that the bill, if passed, will actually prevent further strikes after advancing price levels have nullified, in terms of real wages, the most recent markups of money wages.

Massive strikes in key production sectors can close down many other sectors by withholding needed materials and parts. They can produce a situation closely resembling a general depression. The loss of consumer purchasing power incident to unemployment due to strikes is identical in effect with an equal loss due to unemployment for any other cause. If the strikes and shutdowns continue long enough, the workers affected may exhaust not only their unemployment compensation but also their backlog of savings in the form of war bonds or in any other form. When production finally is resumed, the consumer markets may be so weakened that an actual depression will ensue very quickly. Obviously, therefore, protracted strikes or oft-recurring strikes can wither in the bud a post-reconversion prosperity predicated on an accumulated consumer demand; or can destroy it while still in early flower.

In view of these facts any administration, but particularly one pledged to the adoption of democratic capitalism, should view work stoppages due to massive strikes with the same seriousness as a general depression. It should not hesitate to use, to the fullest extent necessary, all New Deal and special wartime managerial controls, even though some may have perished in the trend back to "normalcy." Key struck plants should promptly be seized by the government, as the oil plants were seized by President Truman under the executive war powers. If those powers had already expired, the plants should be seized anyhow, under executive orders issued in pursuance of a proclamation of a national emergency, and ratifying legislation asked of Congress afterward.

It would do no good, however, merely to seize struck plants and get them back on an operating basis, with or without

wage increases to the erstwhile strikers. The plants would have to be turned back to the owners as soon as they were operating, and the wage-price inflationary spiral would simply resume where it had left off. A crisis of sufficient magnitude to warrant seizures in the first place would certainly justify a request to Congress, not merely for approval of the seizures, but for the reconstitution of the wage-price controls vested during the war in WLB and OPA. Wages and prices are the Siamese twins of the capitalist economy. The wartime mistake of dividing the two halves of what should be a unified responsibility between two independent agencies should not be repeated. An interfused WLB-OPA should be set up, and its policy should be to cut both wages and prices then prevailing in consumer industries and their sources of supply. Thus wage rates would still meet the cost of living index, but at lower price levels, which would benefit *all* consumers. If such action precipitated either lockouts or further strikes, a few more plant seizures should work a cure.

Such drastic action would seem highhanded and be unpopular in certain quarters. It must be remembered, however, that the administration we are talking about would have been elected to office, by hypothesis, upon a democratic-capitalist platform. It could easily justify its action as a temporary measure, designed to preserve the economy from utter ruin while waiting for Congress to act upon the bills which would lay the foundation for the permanent policy already endorsed by the electorate. By taking vigorous emergency action, a depression could be fended off. By tailoring the action to the democratic-capitalist philosophy, pressure would be exerted upon Congress to enact the permanent legislation. For it would see that the alternative to a revitalized economic program by democratic means, would be approximation of the same program by managerial means.

If, however, no further strikes developed after the post-reconversion activity got well started, or if despite further strikes, Congress refused to heed the pleas of the administration under a proclamation of national emergency, the only

recourse would be to artificial measures. Public works would figure prominently, especially public works capable of absorbing the kinds of labor thrown out of private employment as inflation pursued its vicious course. Congress would not be unresponsive to requests along these lines, for it fears unemployment and loves pork-barrels. Every other measure that could bolster consumer demand should be adopted. Competition should be promoted, both through energetic enforcement of the antitrust laws and through maximum encouragement of little business. As far as it could be done without the basic legislation of democratic capitalism, the tax structure should be revised along the lines indicated in Chapter XX. When consumer spending began to decline, it could be stimulated, if substantial quantities of war bonds were still outstanding, by offering to pay increased amounts of interest or even the full interest on bonds of stipulated denominations and issue dates, if surrendered prior to a stipulated time or times. Deficit financing, of course, would be unavoidable.

The foregoing are merely a few of the measures that might be considered in a general quest for expedients to keep production and consumption moving and in balance at a prosperity level while skirting the pitfall of a boom. They are intended to be illustrative or suggestive rather than definitive, and of course amount to nothing more than a stopgap. For if the philosophy of democratic capitalism is sound, the economy cannot be kept going indefinitely without recourse to retroactive adjustments of the wage-price structure and the decentralization of controls. Prudent stopgaps, rather than imprudent ones or sitting back and letting nature take its course, might make all the difference between success and failure, however, in respect to larger policies pointing to or derived from democratic capitalism.

XXVII

Interim Foreign Policy

THE foreign policy of the United States would be more difficult to conduct during an interim period than a domestic policy. There is no such thing as a stopgap program, to be frankly presented as such through the channels of diplomacy. It would be undignified and self-stultifying for a foreign office to admit that its pronouncements are for the moment only. Eternal verities must somehow be aligned behind them—a difficult task at best, and doubly so when circumstances compel a nation to adopt a course of action inconsistent with its long-range desires, as might be the case in the situation we are supposing.

The two chief focal points for the foreign policies of all the Big Five nations are occupied Germany and Japan, with the adjacent areas reflecting an importance perhaps greater, in some instances, than their immediate intrinsic importance. The situation created by the joint occupation of enemy territory by the armed forces of a victorious coalition is inherently one of rivalry for supremacy. This may be regrettable, but it is an inescapable consequence of the attempted cohabitation in the same foreign regions of two or more sovereign, independent states. Rivalry would be inevitable even if the basic institutions of the occupying powers were identical and their aspirations similar.

With such differences as exist between Soviet Russia on the one hand and either Great Britain or the United States on the other, or even with such differences as prevail between

Great Britain and the United States, the difficulty of achieving a peaceful solution is easy to foresee. Hence the folly of deploring, as some moralizing journalists have done, the decision to divide conquered Germany into distinct occupation zones. Only by such means can the task be handled at all. Only by compartmentalizing the national occupation forces can the risk of immediate incidents be reduced to a minimum. There should never have been any doubt as to the wisdom of such a plan. Any doubt that may have arisen should have been dispelled by the highly explosive quality of the situation immediately created when Marshals "Tito" and Alexander found themselves together, momentarily, in Trieste. Granted that the result of the zonal system is to create an arbitrary frontier, it is better to have an unorthodox frontier than a spontaneous combustion. The damage it may do to either the economy or the national pride of the defeated enemy is a lesser risk than the danger that open flare-ups will high-light interallied conflicts whose ultimate resolution, or orderly management, demands their suppression, the machinery for which only the zonal system can supply.

What are the latent conflicts in occupied Germany with which American policy must deal? How will the interim techniques differ from the permanent techniques, under the assumptions of democratic capitalism? To answer these questions intelligibly, we must start by recalling that the constant objective of all foreign policy is to consolidate and expand, even if only for security purposes, the influence and hence the prestige and hence the power position of the national state.

The moralists will dissent, arguing that this statement extols the evils of the now hopelessly discredited balance-of-power system. The statement, however, extols nothing. It merely calls attention to an admitted historical fact that is still with us and will continue to be with us as long as sovereign, independent nations exist. Perhaps they should not be permitted to exist. Perhaps a world organization with sover-

eign powers will eventually provide a better alternate arrangement. But for the time being there is no such world organization. Apart from our present discussion of democratic capitalism, no indication is in prospect of a superstate embracing even so few as two of the present national states. We must accept the situation as we find it, and deal with it as best we can until the capabilities of constructive diplomacy are enhanced. Perhaps it will lift something of the struggle-for-power curse to observe that this time the motivation of the struggle will be different. Our hypothetical administration, in jockeying for position in Europe and Asia, will be trying its best to develop in both regions, as well as in this hemisphere, a social order which, in the remote future, might write "finis" to the long and miserable story.

The broad objective of American policy in Germany, then, will be to foster conditions favorable to the ultimate introduction of democratic capitalism. It will be opposed to the broad objective of Soviet Russia, which will be to foster conditions favorable to the ultimate introduction of communism (i.e., a replica of the Soviet system, allied with or possibly incorporated into the U.S.S.R.). It will also be opposed to the broad objective of Great Britain, which the parlous economic circumstances of that country will shape towards the extension of its own partly nationalized, half-socialist and half-capitalist type of economy into its zone of occupation in Germany. Democratic capitalism has not yet been established as a going concern anywhere in the world. It follows that the American program will be and remain in the idealistic stage until after democratic capitalism has actually been introduced at home. Prior to that time it cannot present the concrete, urgently practical points of conflict with Russian policy and with British policy that those two policies will speedily discover between themselves.

Moreover, the zone of Germany allotted to the United States does not contain the economic resources and potentials of the Russian and British, or even the French, zones. Russia has the east Elbian agrarian regions plus the secondary indus-

trial concentration of Silesia. Great Britain has the primary industrial concentration of the Ruhr plus the North Sea ports (except for America's Weser River corridor). France has the industrial-agricultural Rhineland plus the tertiary industrial concentration of the Saar. The United States has the magnificent scenery and excellent beer of southern Germany, but nothing of economic significance except the Alpine sources of hydroelectric power and the Weser corridor. For reasons of both program and geography, therefore, the United States will find itself acting as umpire or moderator between Russia and Great Britain, whose antipodal prewar differences, both practical and ideological, will quickly revive.

Unless the United States embarks upon this difficult course with a clear conception of its own long-term interests and desires, it will be virtually impossible for it to find any consistent standard of judgment to apply to the plausible but antithetical proposals and demands which will be made upon it. To the Russians, the British policy will point towards the restoration of the highly rationalized, prewar economic system in northwestern Germany which, even if run by a government controlled by a reconstituted Social Democratic Party, could equally well support nationalistic resurgence in times of stress or of other opportunity. They will see in any such tendency a direct threat to their own security, and will oppose it from the outset with all the influence at their command. To the British, the Russian policy of excluding Anglo-American officials and reporters from its occupation zone while it pursues in silence its self-appointed task of integrating the social and economic institutions of eastern Germany with those of eastern Europe, including frequent and sometimes large-scale transfers of Germans to Russia and of Russians to Germany, will appear circumstantially, at least, as the preparation of a Bolshevik *fait accompli*. They will oppose it from the outset with all the influence at *their* command.

In the absence of clearly visualized objectives of its own, how could the United States exert intelligently its own con-

siderable influence? Between points of view so irreconcilably opposed, no genuine compromise is possible. The issue is one which can ultimately be decided only by superior force, or by the threat of force mutually estimated to be superior. American public opinion, which has always taken a lofty, moral tone in foreign affairs, has disdained the *economic* outlook of the so-called Cliveden Set (not yet repudiated by the Labour government) at least as much as it has that of the Kremlin. If Moscow were suddenly to propose, after a year or so of separate and independent administration of the respective national zones, that the administrations be integrated at Berlin, that the German economy be reunited in line with the Potsdam agreement and that a stable, democratic, central government be installed, would not the United States back the suggestion notwithstanding British objections? Could anything be more fatal to the cause of true democracy, to say nothing of capitalism in any conceivable version, if it did?

The consequences of such a decision would be that under the protection which democracy extends to all minority groups (except, in this case, a German nationalist party of the nazi type), the German communists would blossom and multiply. The British-sponsored German officials in their zone would be indirectly discredited by waves of strikes and public disorders, and directly attacked by smear campaigns and possibly by acts of seemingly private violence which everybody would deplore. It would be merely a question of time before communists began to win decisive electoral majorities west of the Elbe as well as east of the Elbe. The hegemony of the Soviet Union would thereby be advanced to the Rhine, where it could be expected to pause only briefly before moving on to the Atlantic and the Channel. The British and Americans could do dothing except fight, for which they would not be prepared, or else go home. In London and in Washington it would be said that, after all, the destiny of the European continent can properly be determined only by its inhabitants, just as it was said in March, 1937, when Hitler

remilitarized the Rhineland, that, after all, the Rhineland is part of Germany.

If, on the other hand, the American people and administration were firmly committed to the resurrection and extension of capitalism and democracy, no such blunder could occur. Americans would not be so naive as to permit their likes and dislikes to affect their policy one way or another. They would know, as clearly as anybody can know anything, that the only real, abiding issue was whether democracy and capitalism would survive in some workable form and regain their pristine vigor, or whether both would be obliterated by communism. They would see that the advance of Russian power to the Atlantic would constitute one arm of a pincers whose other arm would extend, if permitted, through eastern and southeastern Asia and Indonesia. They would ask themselves whether, in the long run, the likelihood was greater that their democratic-capitalist aspirations would come to be shared by Great Britain and by other western states, or by the Soviet Union. In the light of the obvious answer to that question they would not be deterred by memories of the Cliveden Set from joining Great Britain in its skepticism about the Soviet proposal. They would realize that anything obnoxious in the British policy of the moment could be removed overnight by a change of government. They could be certain of an eventual harmony of policy, both for economic reasons and because the British are intelligent enough to perceive that a pincers claw aimed at North America would pass through Great Britain or else isolate that island *en route.*

It may be objected that previous commitment to a reformist program, such as that of democratic capitalism, would not be a necessary condition to the alignment of American policy with that of Great Britain in the circumstances supposed; in other words, that fundamental considerations of power politics would impel such an alignment, quite apart from any long-range program.

I freely concede that fundamental considerations of power politics *ought* to induce an Anglo-American alignment in

opposition to the spread of communism. The probability, however, is that no such community of policy would emerge in the absence of a well articulated, long-range program of our own. What, after all, does that vague phrase, "the American way of life," now mean to our people in concrete terms? Does it mean the same things to a clear majority of the electorate? Rather obviously not. Certainly the particular institutions and behavior characteristics of predepression finance capitalism would not command majority assent, either in the domestic sphere or as a basis for external policy. The events of the depression itself would preclude any such idea, even if it had not definitely been disproved by the four successive victories of Franklin D. Roosevelt against any and all combinations of opposition strategy devised by the Republican Party and its four superficially different candidates.

We must recognize that among those loyal to "the American way of life," those having confidence in the literal *status quo ante* are but a small minority. There are at least two divergent interpretations, accounting for a near majority of the adult population. One is that of the neo-liberals who naively believe that somehow a centralized economic planning authority can be superimposed upon the apparatus of political democracy without crushing it. The other, and probably more widespread, view is that free enterprise is still a valid principle of economic organization, but that certain unspecified reforms are necessary to its further successful operation. Then there are the communists and fellow-travelers to whom "the American way of life" is a mere smoke screen, useful in masking their real objectives. Out of this welter of division and confusion emerges the sentiment relevant to this discussion. It is not necessarily a majority sentiment, but nevertheless is that of a minority too important to be disregarded by a democratic government shaping national policy. It is that, on the whole, Russian techniques in the *economic* sphere are preferable to those of the British imperialists and cartelists. The tendency of this sentiment would be rein-

forced by the noneconomic motivations of minority groups which (1) are fearful of antagonizing Russia, or (2) hate Great Britain.

To overcome this contrary tendency of substantial segments of public opinion and to mobilize them solidly behind a realistic policy (foreign *and* domestic), some definitive program articulating "the American way of life" in practical terms seems to me indispensable. Such a program need not be literally that of democratic capitalism; theoretically it could be *any* program similar in aim. If capitalist at all (as it would have to be, if it purported to reflect "the American way of life"), then, equally with democratic capitalism, it would lend American support to a British attempt to check the onward sweep of communism.

Not that the Anglo-American skepticism of the assumed suggestion of Moscow regarding Germany need take the blunt form of a categorical refusal. The British and Americans could suggest that each of the three powers and France dispatch economic, civil affairs and military missions to each other's zones to make a thorough and unsupervised study of local conditions, and that journalists be permitted to accompany them. If Russia acceded to this suggestion, a great deal of highly important information could be collected in the light of which a concrete set of principles could be developed for the proposed joint administration of Germany as an entirety. Prominent among them would be, of course, the basic civil liberties, suitably implemented, and economic and political institutions which could be designed to anticipate those of democratic capitalism. If (by a miracle) Russia also assented to these elaborations of its own basic proposal, then in truth one could say that there is no fundamental reason why the democracies and the Soviet Union could not collaborate in peace as in war. But if Russia turned down either of these suggestions, it, and not we, would have assumed the diplomatic *onus* of defeating its own proposal for the joint control of Germany under democratic auspices.

In the Far East the end of the war has left a situation roughly comparable with that in Europe. It is true that American forces occupy the bulk of Japan proper, and are in decisive control of the Imperial government. The troublesome factor in the Far Eastern situation has its locus in China and demands far more enlightened attention on the part of the United States than it seems to be getting.

We observed in Chapter V that the inherent cleavage between Nationalist China under Chiang Kai-shek and communist China under Mao Tse-tung was forcibly sutured by the American policy of "unification," to which Russia assented. That this solution was imposed upon Chiang seems altogether probable, in view of the disclosure of President Roosevelt's highhanded performance at Yalta, where he ceded to Stalin vital interests in Manchuria and guaranteed Chiang's consent. Just what kind of bedfellow for Chiang Mao is likely to be appears clearly in the following quotations from his book, *China's New Democracy* (1941), published in English (1945) with an introduction by Earl Browder:

> The world now depends on Communism for its salvation, and so does China.
>
> We cannot separate ourselves from the assistance of the Soviet Union or from the victory of the anticapitalist struggles of the proletariat of Japan, Great Britain, the United States, France and Germany.
>
> No matter whom you follow, so long as you are anti-Communist you are traitors.[1]

The foregoing, it is true, is an ideological utterance, and ideological utterances, by themselves, are not reliable guides to future conduct; but when they precede or accompany consistent action, they are worthy of serious attention, as the world learned too late in respect to *Mein Kampf*.

To Chiang, the American decision to "unify" China must

[1] Reproduced in *The Fate of the World is at Stake in China*, by Max Eastman and J. B. Powell, June, 1945, *Reader's Digest*, p. 16.

resemble that of a surgeon who sews up an incision without removing a cancer. Supposedly the Kuomintang will now have an opportunity to win over northern China equal to that of the communists to win over southern China. But cancerous tissue has a habit of proliferating faster and farther than normal tissue. We are either deceiving ourselves or else indifferent to our own interests in proposing such a race of diligence, the outcome of which is implicit in Moscow's ready assent to it. If we acknowledge our blunder as its consequences begin to appear, the quantity of help which will then be needed by non-communist China will be far greater, and our ability to furnish it far less, than would have been the case in the beginning.

In the first instance little military aid would have been required of the United States beyond the completion of its program, interrupted by the ending of the war, to equip and supply thirty Chinese Nationalist armies (hardly more than forty-five divisions by our count). Since the sudden cessation of hostilities against Japan placed us, for once, in a good strategic position to furnish short-term military aid to China of the kind needed, only pathological fear of becoming "involved" could have prevented us from taking so obvious a course. The practical argument the other way, namely, that our initial contribution to Chiang would immediately have been matched by an equal (or greater) contribution to Mao by Russia, bears in favor of American support rather than against it, even if the assumption of the argument is sound.

There are persuasive reasons, however, for doubting that the assumption is sound. Certainly Mao would be in no position to fight Chiang without Soviet assistance, with the United States committing itself on the other side. The question then facing Moscow would be, in effect, whether to risk a possible all-out war against the United States by ordering Mao to attack. That is a question, obviously, to which a different answer might well be given under the circumstances supposed from the one to be anticipated if the United States were to withdraw from China.

It is a fair inference that Russia will desire at least a decade free from major wars in which to recuperate. During that period it might yield to a temptation to try for a long-range objective by supporting, with equipment and supplies, the efforts of a willing puppet like Mao Tse-tung if the indications were that the cost would not be great; and yet resist any such temptation if the indicated cost were high. Immediate war with a well-prepared and determined America would be unthinkable at this stage. Mere guaranty of a Chinese lieutenant's war against a Nationalist regime abandoned by its western allies would be an altogether different proposition, and one well worth considering, from the Soviet point of view.

If the risk still seemed too great for the time being, it would not long remain so. Ten or fifteen years later, with the United States withdrawn from both Asia and Europe, militarily demobilized, probably in the throes of a finance-capitalist crisis and with its internal unity shattered by civil unrest partly spontaneous and partly fomented by *agents provocateurs,* the call to further high adventure in various regions of the world would prove irresistible. We must remember that to the Kremlin expansion into, or interference with, the domains of other states is not aggression; it is liberation of the proletariat from the chains of capitalism. It is largely for the capitalists to decide by their behavior whether they will lend colorable support to the Kremlin's view.

In Asia as in Europe, then, the United States can either "nobly save or meanly lose the last, best hope" of democracy and capitalism upon earth. If we are not sure about the meaning or continuing validity of our own fundamental institutions, or delude ourselves with the thought that only the Germans and Japanese had endangered them, we can easily persuade ourselves that China's sorrows are none of ours, and return Chiang to the splendid isolation to which we had consigned him between 1937 and 1942. We can go further, and rationalize our withdrawal upon the ground that, after all, Sun Yat-sen's revolution has bogged down, that Chiang is a

dictator, that the Kuomintang's is as much a one-party government as the National Socialists' (or the Communists'). All of these things are true, at least for the time being. They could be used as a moral highway for our escape from a difficult situation. They will not alter the fact, however, that if we do make a getaway, we will thereby have made a present of 450,000,000 Chinese to whatever destiny Moscow may have envisaged for them. By the same token we will have done all in our power to assure the completion of our own encirclement by leaving the raw materials for the eastern claw of the pincers behind us in Asia.

An intelligent, standfast policy in Europe and Asia until such time as the achievement of basic reforms at home would put the United States in a position to seek their extension abroad, could be further implemented by decisions taken in respect to seemingly unrelated requests and proposals. Thus it is to be anticipated that the Soviet Union, as well as other countries, will need long-term credits from the United States with which to carry out the necessary work of reconstruction and rehabilitation. Partly for humanitarian reasons, partly because of a sentimental desire to aid former comrades-in-arms and partly because of the lucrative trade opportunities the granting of such credits would open up, American public and business opinion is apt to induce the approval of the requests, at least in substantial part. There would be no other condition than that the proceeds be spent in the United States for the purchase of manufactures or commodities produced in this country. If this turns out to be the case, we will have thrown away a bargaining power which America's wealth, productive capacity and relative immunity from the ravages of the war are certain to make unique and possibly of decisive weight in the immediate postwar years.

It would be the part of wisdom to link our negotiations over credits with negotiations over other items of policy of far greater long-range consequence to us than the sale over a few years of even billions of dollars' worth of goods and

services, important though the latter would be. Indeed, the latter without the former might easily prove to be a boomerang. We might combine our democratized elaborations of Russia's assumed proposal for the joint administration of Germany with our answer to an independent request from Russia for a large loan. We might say, in effect, that we will participate in the suggested joint plan for Germany if Russia will accept democratic capitalism (spelled out) as a basis for it, *and* that we will at the same time and on the same conditions extend the requested credit. By so doing we would add enormously to the attractiveness of our countersuggestions in respect to Germany. If Russia nevertheless refused these conditions then, it is true, we would lose the trade advantages of the loan; but if we granted the loan irrespective of the refusal of the conditions concerning Germany, the proceeds of the loan might turn out to bear a striking resemblance to the oil and scrap-iron we kept on selling Japan right up to 1941.

One of the lessons which the painful experiences of the past thirty years ought to have taught us is that all parts of a national policy having international implications are interrelated. It makes no difference whether one part is called "domestic" and another part is called "foreign" or whether the "foreign" part is itself subdivided into "commercial" and "political." Unless we achieve coordination at or just below the level of final action, we shall at best be working inefficiently if not wastefully, and very often may be working at cross-purposes. We cannot hope to prevail with a policy which our common sense tells us is on a collision course with that of another nation, and at the same time build that nation up through financial and commercial dealings. Where two or more desires are mutually exclusive, we must choose between them on the basis of relative importance. But if we possess reasonable skill as well as intelligence, we will often find that we can achieve both or all objectives, by playing off the desires of another nation against its fears or objections.

In order to execute a foreign policy with wisdom, we must

have a foreign policy to execute. In order to develop a foreign policy, we must have a clear conception of what we wish to accomplish, or at the minimum an integrated body of principles, which will make our proper policy manifest in a given situation. Most fundamental of all is a determination to infuse our principles into ever larger sectors of our own body politic and its daily life. Principles of conduct espoused by a nation's foreign office but contradicted in its internal living are not taken seriously by other nations, or are discounted by them as mere propaganda or ideology. They are thereby weakened.

We saw an example of that in our attempted remonstrances before the war with the German government over its anti-Jewish program. The nazis immediately retorted by calling attention to our treatment of the American Negro. While the analogy was far from exact, there was enough in it to make further pursuit of the matter unprofitable. Similarly, the Soviet Union's frequent endorsements of democracy occasion only amusement among other governments and individuals except those already subjected, by force or acquiescence, to Russia's consummately anti-democratic procedures.

Still, a principle or body of principles not yet fully realized at home affords a better basis for a foreign policy than no principles at all, or pseudo-principles to which, as anyone can see for himself, only lip service is paid.

XXVIII

Democratic-Capitalist Foreign Policy

WE HAVE been assuming that the American administration was committed to democratic capitalism as a basic principle of both internal and external policy (though it had not yet achieved it internally), and that the American electorate had indorsed it. From those assumptions, certain capabilities and limitations in the conduct of foreign affairs would follow.

Both the philosophy and the specific program of democratic capitalism would be available to the State Department as a unifying and coordinating control for the shaping of the various aspects of its policy. Foreign nations would be bound to view democratic capitalism as a true principle, and not as a pseudo-principle, both because of the election results and because of the contemporaneous effort the administration would be making to secure enactment from Congress.

Yet until actual enactment and vindication through successful practice, there would be limitations set to the scope of State Department action. Thus there would be no possibility of negotiating the multilateral trade treaty called for by the program until we had, by our own example, shown to the world that democratic capitalism is a more successful mode of social organization and conduct than any other now competing for allegiance. Very probably, and for similar reasons, there would be no substantial chance of securing British

and French backing for democratic capitalism as the basis of the assumed American elaboration of Russia's hypothetical suggestion regarding the joint control of Germany. We would be technically free to try out the plan in our own zone of occupation before trying it out in our own country. But whatever opposition was holding up passage of the domestic legislation would doubtless be able to thwart an anticipatory trial in Germany.

Once the domestic program became law and acquired the persuasiveness of successful practice, the American foreign policy would gain correspondingly in stature and weight. Then the multilateral trade treaty could be proposed and, if the superiority of the democratic-capitalist techniques had been incontrovertibly proved, could be negotiated successfully. By the same token there would be British and French support for the American proposals regarding Germany. If Russia rejected them they could nevertheless be introduced into the British, French and American zones and those three zones could be administered jointly thereafter. Russia, if not then prepared to go to war against the revitalized democracies, would have to accept the Elbe as the western frontier of its sphere of influence, and face the unexpected problem of keeping it from moving eastward, out of Germany and perhaps out of Poland.

Similarly, Russia would know that the United States, probably joined under these circumstances by Great Britain and France, meant business in backing Chiang Kai-shek against Mao Tse-tung. It would have to reckon with the possibility of the emergence of a democratic-capitalist China and of a democratic-capitalist Japan. In brief, the forces of communism, not the forces of democracy, would contemplate the prospect of encirclement.

It must be conceded that the prospect of encirclement would be no more welcome to the Soviet Union than it would be to the United States or to any other nation. The development of a power bloc of democracies might easily cause the Kremlin to launch the Third World War in what

it considered to be legitimate self-defense. Actually, there would be no hostile intent on the part of the democracies to justify Russia's preventive war, but that would make no difference. Basic considerations of geopolitics always induce a state or coalition whose position seems to be slipping to seek to restore the balance of power. And since the United States would undoubtedly resist by force a growing encirclement of the Western Hemisphere by the Eastern, it may seem to some readers that there is little to choose between democratic capitalism and any other program or policy, in view of the tendency of all of them towards World War III.

Even assuming the premise that the Third World War is inevitable, I *submit that it makes all the difference between victory and defeat whether it comes at a time and under circumstances* which give the strategic advantage to ourselves and our allies or to our enemies. A war begun by Russia to break out of a feared encirclement would be fought in central or eastern Europe and in eastern Asia, with no resources of man power or of raw materials and production other than Russia's own. It would be fought at a time before Russia had fully recovered from the effects of the Second World War; at any rate at a time earlier than Russia would have chosen, if it had held the strategic initiative. It would be fought, moreover, by a despondent if not demoralized society which had seen the priceless advantages of self-confidence, influence and prestige slip from its own grasp into that of the enemy.

On the other hand, a war begun by the United States *to* break out of encirclement would be fought *in the Western* Hemisphere, with *no resources of man power or of raw materials and production other than those of* North America *and perhaps of the* Caribbean littoral, and at a time fixed, in effect, by communized Eurasia. It would be undertaken, moreover, as a counsel of despair by a people finally disillusioned of (finance) capitalism yet bitterly resentful of the regimentations of even a home-grown version of managerialism. To my mind the differences between these two situations are sufficiently persuasive to motivate the choice of a na-

tional policy leading to the one rather than to the other, even if both do lead ultimately to war.

I do not agree, however, that a choice of the first policy would necessarily lead to war. I do agree that a choice of the second would do so, or would lead to a capitulation to communism without a fight. In order to make war, whether for the purpose of preventing or shattering encirclement or for any other reason, a nation must have the means as well as the will. Both Soviet Russia and Germany were encircled in 1918 by the victorious allies of the First World War (among whom Japan was included), just as much as Soviet Russia would be in the circumstances supposed above. Yet neither country went to war (although Russia fought defensively against foreign invaders) because neither was then able to do so.

Therefore if democratic capitalism is introduced within the United States by 1951, say, and has a chance to prove itself; if it is adopted at an early date thereafter by other democratic and semi-capitalist countries in Europe, and eventually also in Asia; if, in short, capitalism experiences a reformation along the lines indicated, or along other lines equivalent in purpose and result, *before* communism can set its own international house in order, a war might be viewed as hopeless in Moscow before it could even be started. In that event, we may be sure, it would be indefinitely postponed.

It would be presumptuous to predict that no wars would ever break out thereafter. But if the democracies did indeed achieve such further progress towards the realization of their own ideals as appears to be within their grasp, there would be a substantial basis for hoping that the cycle of recurring world wars of the twentieth century would be broken. Such a consummation presupposes not only greater foresight and enlightenment than the democracies have been accustomed to display, but also a capacity for speedier action. We may be sure that the race between capitalism and managerialism for world dominance which began in 1917 still continues. Like all other speed contests, it is a race of diligence.

My estimates of the probable Soviet attitudes and reactions are certain to be seized upon in some quarters as conclusive evidence of an anti-Russian prejudice on my part. It will be argued that my earlier emphasis upon the ideological rivalry between communism on the one hand and democracy and capitalism on the other, is thus shown to be a mere smoke screen, masking a baseless and mischievous hatred of Russia.

Any such criticism would ignore (perhaps deliberately, in some instances) the observation with which we began our consideration of the progress of the managerial revolution. We noted that the revolution proceeds in two dimensions at the same time: horizontally, as between the adherents of rival ideologies in all nations; and vertically, as between the nations themselves in which the rival ideologies have become dominant. In Chapters V and VI we were concerned primarily with the ideological aspects of the revolution, and remarked only incidentally the expression in the national governments of Europe and Asia of the two schismatic versions of managerial philosophy known as communism and socialism. In Chapters XXIII to XXVIII we have been concerned primarily with international relations, which necessarily are determined in large measure by the dominance in the several states of the various social ideologies, both managerial and capitalistic.

While a national policy does not deal directly with ideological factors, it cannot disregard in any state with which it deals the presence or absence of a prevailing social philosophy which is congenial, neutral or hostile to its own. For practical purposes, a particular state in which a particular philosophy is in the saddle must be regarded as the embodiment of that philosophy, at least for the time being. It makes very little difference to one government how morally innocent the motivations of another government may be, if the latter takes action against the interests of the former. The first government is bound to counter such action if it can, or better yet, to anticipate it and take preventive measures.

Therefore it makes no difference whatever to American

policy that the Soviet Union, as a national state, may harbor no ill will towards the United States, as a national state, if the Soviet Union supports or seems about to support an extension of communist rule in Europe and Asia. It might do nothing to initiate such an extension. Its support might be virtually forced, contrary to its paramount desires of the moment, by the action of communist parties in other countries which it would regard as precipitate or ill-advised. Yet this is immaterial to us, if the support is forthcoming in fact. A victory for Mao in China, successful bids for power by Togliatti in Italy and by Thorez in France, would be just as fraught with danger for the United States if they had come about spontaneously as would be the case if the Red Army had been the prime actor. For I cannot make the ultimate assumption which the critics of the argument would have me make: that the success of communism outside the Soviet Union would be a matter of complete indifference to the Soviet Union, and would not be followed by a concert of policy by all communist governments wherever established.

My opinions have not been shaped by any prejudice against the Soviet state or against Russian managerial institutions—for the Russians. I share the world's admiration for the tremendous Fact of Stalingrad and for the epic quality of the Russian people's resistance and resurgence. I even admire the singleness of purpose and efficiency exemplified anew every few weeks by the Russian government, even if the logical conclusion is that the Kremlin knows its business better than Washington, London, etc. know theirs.

The sole sources of what some will regard as my anti-Russian bias are the axioms established, at least provisionally, by the historical pursuit of national destinies by sovereign, independent states living in a geopolitical atmosphere. Most of these axioms we have already had occasion to consider, some of them repeatedly. They arise not at all, or only to a minor degree, out of the intentions, desires, tastes or caprices of governments or political leaders. They do not reflect policy, they determine policy. This is so no matter how skillfully

particular statesmen may have sought to make the contrary appear. The Connecticut Yankee at King Arthur's Court who predicted the total eclipse of the sun was no magician, but he was a superb politician.

The axioms upon which my views about Russia's future policy chiefly rest are, briefly, these:

1. *Every national state will seek at all times to improve its own position vis-à-vis the positions of other national states.* The motivation need not be, and usually is not, self-aggrandizement or hostility for its own sake. The primary motivation is security. Russia speaks more candidly on this subject than do most other states.

2. *The position of the national state rests ultimately upon physical power.* Alliances between the strong and weak or even, temporarily, between the strong and the strong, have frequently been utilized by states having similar security interests against potential rivals having opposing security interests. Alliances are inherently weaker and less reliable, however, than unified political control over the area in question, since they depend upon a concert of wills instead of a single will. Hence the position of the weaker members of an alliance tends to deteriorate in relation to the position of the stronger members, as the latter seek to increase their control over the former. The recent histories of both Nazi Germany and of Soviet Russia abundantly illustrate this proposition.

3. *The improvement of a power position usually implies expansion, in directions having geopolitical significance.* The expansion need not be in terms of contiguous territory, or of highly developed territory, or even in terms of territory at all, in the sense of an extension of political sovereignty. Economic expansion, such as the "capture" of markets or of important sources of raw materials, may serve the power needs of a nation as much as or even more than the conquest of adjacent territories. All of the capitalist empires have pursued this course as well as that of territorial expansion. Soviet Russia has begun to pursue it in the Middle East and in Mexico as well as in Europe and in China. The geopolitical

factor simply operates to guide expansion towards regions that are important from the standpoint of military strategy, economics, communications, etc. in preference to regions having lesser significance. Contrast the continuous historical excitement over the major bottlenecks on the world's sea-lanes with the complete apathy, prior to the development of air transportation, towards the arctic regions. And recall Mussolini's bitter disclaimer that he would be satisfied to become "a collector of deserts" (assuming that they were not oil-bearing).

4. *Collisions between powers or power blocs are preventable only by the maintenance of a balance of power.*[1] Since the expansion of one state or coalition becomes an encroachment upon the territory of other states or coalitions, every move towards expansion induces a reaction commensurate with the danger. Expansion ceases only when power potentials are balanced. Contrary to the comment currently fashionable, an actual balance of power does not precipitate war. It is only when a former balance becomes unbalanced that war becomes imminent.[2] Hence the frantic, eleventh-hour

[1] The alternative system of collective security, as embodied in the Covenant of the League of Nations, proved to be a failure. The renewed attempt made by the San Francisco Conference in behalf of the United Nations has yet to be tested. Clearly, however, the security machinery provided by the Charter is only that and nothing more. Its successful operation, in view of the veto provision, is wholly dependent upon unanimity of interest and policy on the part of the powers constituting the Council. Any difference between them which cannot be composed will automatically recommit the keeping of the peace to the familiar techniques of power politics.

[2] Compare the discussion in *A Study of War* (Chapter XX, pp. 743-766), by Quincy Wright. Chicago: The University of Chicago Press, 1942. On the basis both of abstract reasoning and of a review of history, Professor Wright argues persuasively that by mid-twentieth century the balance-of-power technique has become unreliable, both because individual powers in the constellation may seek to destroy the balance and because adventitious circumstances, such as new military inventions or improvements in technology, may themselves destroy it. He also emphasizes the importance, as factors in the power equation, of imponderables, such as ideologies, personalities, etc. All of this may be conceded without prejudice, however, to the proposition that so long as virtual equality in the alignment of powers happens to exist (or is mutually estimated to exist, whether or not it is mutually desired), war is unlikely.

efforts of Great Britain and France in 1939 to procure an alliance with Russia. Hence also the inevitable attack upon Poland when Germany itself succeeded in negotiating the pact with Russia of August 23, 1939. The timing of Germany's own attack upon Russia on June 22, 1941, was due to a fatal miscalculation of the balance-of-power position which would be created by the attack itself. The present position in Europe and Asia is verging towards unbalance as diplomatic victories, actual and in prospect, add weight to Russia's stupendous military victory in Europe and its participation in the victory over Japan.

5. *The importance of cultural and ideological disparities is proportional to the revolutionary content of the times.* In a stable era, such as that of nineteenth-century capitalism, ideological and cultural similarities and differences play virtually no part in determining allies and adversaries. Catholic monarchies have been allied with, and have fought, Protestant monarchies. Monarchies and republics have marched with and against one another. But in times of revolution, such as the four or five centuries which began with the decay of feudalism and ended with the delineation of the modern national states of capitalism, manic fervors over the rescue of the Holy Sepulcher from the infidel or over the virtues and shortcomings of the Papacy contributed to phenomena like the final Crusades and the Wars of the Reformation. The reason is easy to grasp. A revolutionary ideology which really takes hold captures the imagination of man and sets it on fire; it endows his body with a strength and endurance quite beyond its normal capabilities. Surely that kind of historical lesson, so recently re-enacted by both nazis *and* communists, ought not to be lost on capitalist or semicapitalist states in the midst of the managerial revolution.

For reasons which by now, I hope, are abundantly clear, I have not been persuaded by arguments or assumptions that the Soviet Union will not act as all other national states before it have uniformly acted. Diplomatic assurances and positive deeds, such as the oft-remarked dissolution of the

Comintern, are at best inconclusive, and seem already to have been contradicted in too many recent instances to require recapitulation. The friendly attitude, in the field, of Anglo-American and Soviet troops is wholly meaningless for the future. Troops in the field do not make policy and, being soldiers, they get on beautifully together while their nations are fighting a common enemy.

What seem to be the significant realities are:

(1) that Russia already has expanded its sphere of influence enormously and shows every sign of keeping right on doing so, as indeed it must, since every forward movement requires the building of a new "buffer" or "security" zone;

(2) that it is committed to, nay, founded upon, a revolutionary dogma calling for the extirpation of capitalism, root and branch;

(3) that this very dogma has aroused the kind of "manic fervor" which closes minds and hearts to all except itself, even beyond its own borders and the zones of present hegemony.

Under these circumstances our political leadership, like a military General Staff, would be derelict in its duty if it did not plan with reference to the capabilities of the possible enemy, not with reference to its assumed desires or intentions. In terms of capabilities, the most sweeping statement we can make concerning the future is also the surest and the most important. It comes to this: Managerialism is certain to prevail unless capitalism can discover within itself modes of thought and action which can do better the work of the age.

XXIX

The Democratic-Capitalist Ideologies

OUR discussion of a new American policy is predicated upon the assumption that democratic capitalism had become a major political issue in the national campaigns of 1948 and that the electorate had given an unmistakable mandate to the party advocating its theory and program. The crux of that assumption is not that a national party would actually embrace so novel a system of ideas and write it into its platform. National parties rarely adopt anything novel and almost never declare themselves unambiguously for or against any controversial proposal. But popular pressure, if sufficiently great and if properly directed, could force such unwonted action, much as it forced Wendell Willkie upon *the Republican convention of 1940. The crux of the assumption* is, therefore, that the public will should be aroused to the degree and channeled in the direction necessary to bring about a result which, under even the most favorable circumstances, would be accounted extraordinary. This near miracle would not depend alone upon the abstract soundness or even the plausibility of the program or theory of democratic capitalism. It would not depend alone upon the clarity and comprehensiveness of the publicity given to these proposals. It would depend also and, I would agree, chiefly upon the extent and intensity of the emotional enthusiasm that could be mobilized behind the program, whether or not accom-

panied by understanding. The issue of political acceptance therefore poses, in the final analysis, a problem of ideological treatment.

It is no disparagement of the intelligence or common sense of the great mass of voters to concede that their action at the polls, and earlier, will depend less upon their comprehension than upon their feelings. Passing the question of psychological mechanics, whether the emotions rather than the intellect are not always the final determinants of conduct, we may rest our concession upon the obvious fact that democratic capitalism involves a wide range of specialized knowledge, some of it highly technical, and that the great bulk of it would be beyond the grasp of the average citizen. How much do even intelligent and well educated people, not in daily contact with economic theory, actually understand of the investment-consumption income problem? Yet the problem is equally real for the physician, the banker, the factory foreman, the superintendent of schools and the housewife. All of these citizens, with diverse backgrounds and interests, must be brought to a common determination not only to vote for democratic capitalism, but to work actively for its presentation as an issue, if it is ever to make a sounding of the public will.

We could write off the whole undertaking as hopeless in advance, but for the divinely unpredictable quality of the popular imagination, which frequently confounds politicians and public opinion samplers alike. Fifty years ago William Jennings Bryan electrified the country—unsuccessfully, it is true, but nevertheless spectacularly—over so unlikely a question as the gold standard *versus* bimetallism. While the Nicene Council was meeting in 323 A.D. the populace of Alexandria sang and whistled popular ditties inquiring whether the Son was of the same substance as the Father, or of a different substance. The writings of Karl Marx are not exactly inflammatory, yet they have helped to set half a world on fire. The appeal and force of an ideology do not necessarily depend upon its subject matter.

By the same token I must assume that a successful ideological campaign could be conducted in behalf of democratic capitalism, despite the technical nature of the subject and notwithstanding the magnitude and speed such a campaign would have to attain in order to achieve success. It is not my purpose to develop a blueprint. That is a task requiring full-scale efforts by economists, historians, moral philosophers and other competent specialists more skilled than I. My present and final purpose in this book is merely to call attention to dangers lurking in the raw materials available for a new set of ideologies, or for refurbishing the existing set. First we should make an estimate of the present ideological situation.

Democratic capitalism, being still capitalism, would fall heir inescapably to all the capitalist ideologies. It would have, as against the rival system of managerialism, both the strength and the weakness, the appeal and the repugnancy of being in the established tradition, however novel in detail. Those already committed intellectually or emotionally to some form of managerialism, whether the Soviet variety or some other, will naturally see no virtue whatever in democratic capitalism. It will appear to them as a conservative snare, contrived for the entrapment of the unwary. At the opposite pole, the stand-patters to whom capitalism means a system of social and economic philosophy in whose institutions they have a controlling proprietary interest, will regard democratic capitalism as not capitalism at all, but a radical maneuver designed to deceive the people.

Thus the two principal contestants in the social arena—the ruling class, and the intellectual spearhead of the managerial revolution—will, for opposite reasons, bitterly oppose democratic capitalism. They would be right from their respective points of view. For democratic capitalism, if accepted and put into effect, would by-pass the current class struggle for power and leave it in the rear, irrelevant and suddenly ridiculous.

The true market for democratic capitalism consists of

neither extreme "left" nor extreme "right," but the great center groups, ranging from liberal conservative to conservative liberal. Here will be found anti-communist labor, enlightened management (not all of it in little business), most of the farmers, anti-bureaucratic administrators and government employees, the bulk of the professions and the middle classes threatened with extinction by both the finance capitalists and the managerialists. Here is the backbone of America. Here are the solid and sturdy people of all backgrounds, occupations and educational levels who are still devoted to the American dream, who still believe in the dignity and worth of the individual human being, even though their faith may have been shaken by events. Primarily to these, the salt of our democratic earth, the following words were addressed:

> When the continuity of life is lost, all is lost; that is the primary fact which we must face. Such a break with the past is the most fearful of the calamities that can fall upon man. There is no reason to believe it would be less devastating in its results today than it was the last time it occurred in Western Europe: between the fifth and the eleventh centuries.
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> The central danger to our world is that the barbarians will cut the web of history. The central task of our world is to preserve it. This is a conservative task which we must perform whether or not we like to be called conservatives. Democracy has become the one effective conservative force in the world; and we are its guardians.[1]

We must be careful to distinguish between an inchoate loyalty to democracy and to the particular slogans—liberty, individual freedom, private enterprise, progress—with which democracy has been wont to clothe itself. The war was fought energetically and successfully under these slogans; whether because of them or in spite of them is an open question. Certainly it took the Japanese bombs on Pearl Harbor to galvanize the American people into an all-out, united effort.

[1] *A Time for Greatness* (p. 58), by Herbert Agar. Boston: Little, Brown and Company, 1942.

Before then there were divisions of opinion and extensive apathy, despite the slogans. The public learned during the depression that "rugged individualism" in the economic sphere can lead to disaster; that "liberty" and the basic "freedoms" will not, as abstractions, fill an empty larder or restore the pay envelope. The idea of progress, even when confined to the moral sphere, sustained a crushing blow at the hands of the nazis. Making full allowance for the probability that our citizens by and large are still predisposed in favor of liberty and democracy, the four freedoms and progress, we may be sure that they will demand a new interpretation which will reconcile what they would like to believe with what they know they must have in order to feed, clothe and shelter themselves. The ideological task of democratic capitalism is to supply the new interpretation. It cannot win its audience by singing the old songs, no matter how sweetly.

Fortunately for the honesty, if not for the success, of the effort, continuity is not synonymous with progress. Continuity may include progress. But it is not necessary to be sure that indicated adjustments will actually produce a uniform advance in all sectors of action and thought. Nobody can be sure just what the consequences of any innovation may be. The best one can do is to estimate the probable consequences. I think I can recognize a change when I see one. I am far less sure, even by the subjective test of my own prejudices and tastes, whether it represents "progress" or the reverse. How it would be judged by others is not for me to predict.

I can see that democratic capitalism might fail to attain a conceivable standard of progress because it worked too well. By smoothing the path of daily living for a vast majority of individuals it might deprive them of needed stimuli, chiefly provided by the coughing and bucking of a less perfect social mechanism. It might foster smugness and boredom. It might overly persuade an already materialistic civilization to scrap whatever limitations it now imposes upon materialism as a rule of life. There seems to be an obscure and perverse

rule of human nature which tends to make spiritual attainment inversely proportional to material well-being. The late Victorian period, the most serene era of historical capitalism, is now quite generally regarded as hypocritical, smug, complacent. Moral bankruptcy antedated financial bankruptcy in the "Golden Twenties." Conversely, both depression and war released transcendental individual resources, ranging up to incredible heroism. Ideologists would do well, therefore, to maintain a discreet silence on the subject of progress.

When we consider capitalism's classic espousal of individualism, we encounter a major soft spot. Many confirmed individualists know it to be such and it has been well probed by the managerial ideologists, whose appeal to the idea of the group, as distinguished from the individuals composing it, is also rooted in psychological need and supported by a moral philosophy with a long history. It is fascinating to reflect upon the close parallel between the modern version of the endless debate over individualism *versus* authoritarianism, found in the ideological tug-of-war of the capitalists and managerialists, and the wholly analogous struggle in the Reformation four hundred years ago. Both contests, indeed the entire dispute in any form, stem from what used to be called the "dual nature of man." This may be described as the contradictory impulses of the individual on the one hand to see in himself the ultimate arbiter of his own destiny, and on the other hand to seek a solution to the mystery of his being in something outside of, and greater than, himself.

Before the Renaissance the primordial human longing for an outside reference was focused upon the composite God of Judaism and Christianity. The Catholic Church was accepted as the sole and authoritative interpreter of the Divine nature and will. The social institutions of the western world were similarly riveted upon the feudal order, whose hierarchy (after a successful defense against encroachments of the Church) exercised an absolute authority in temporal matters. The Renaissance revived the long dormant individualistic attitudes characteristic of the classical civilizations, and these

soon began to weaken the iron grip of the feudal ideologies. It is not surprising that they had a similar effect upon the position of the Church, especially since the Papacy itself began to succumb to the fresh and pagan winds blowing from ancient Greece. For a long time these winds did not reach beyond the Alps. To Martin Luther, brooding among the conifers of Thuringia, the responses they evoked in and about the Holy See were anything but pleasing. Thus began the Reformation, which was compelled by circumstances to become Protestant; that is, to insist upon the right of private judgment and conscience and upon the duty of individual responsibility.

It was inevitable that the rising class of capitalists, already partly successful in their struggle to break away from feudal restrictions in economic and political matters, should embrace the Reformation and its parallel individualism in the religious sphere. Not only were the Reformation ideologists congenial allies, but the adversary of the Reformation, i.e., the unreformed Church, was the ally of their own enemies, the feudal lords. The Church supported the absolutist claims of the latter almost as strongly as it insisted upon its own prerogatives. It viewed treason to one's "lord and benefactor" as a heinous sin. Rather strangely, Luther backed up the feudal claims; but it was too late. What he had helped to promote ran its logical course.

In recent modern times the relations of man to man have displaced the relations of man to God as a primary determinant of human affairs. The concept of God is not without a lingering influence, but for a majority of western peoples it has ceased to be a daily preoccupation. The old longing for an outside standard of reference and judgment has, nevertheless, continued. When the disintegration of the capitalist order had sufficiently aggravated the partial vacuum of the spirit created by the loss of God-awareness, first the Bolsheviks and then the Fascists and finally the Nazis had their respective brands of synthetic authoritarianism all prepared with which to dose the soul and subdue the body.

The various forms of managerialism purport to fulfill spiritual as well as secular needs. That communism and nazism succeeded better than fascism may not be due altogether to the disparity in material resources of Russia, Germany and Italy. The hollowness of Mussolini's regime may have been due in part to a superior capacity of the clear-eyed Latins over that of the metaphysical Teutons and the melancholy Slavs to discern a false god and find refuge in cynicism. The inadequacy of the totalitarian state as a God-substitute is apparent from the fact that the state does not have, and cannot have, any superhuman or extra-human pretensions or aspirations whatever. It leaves no room for the essential mystery of the origin and destiny of life; it vouchsafes no mystical answers; it postulates no Kingdom of God. Since the state has no God-attributes, the chief of state, when he errs, cannot preserve the infallibility of God by attributing the error to fallible human agents. When the chief of state errs, the state errs. If he errs badly enough, the state collapses, as in Italy and in Germany. In Japan an incarnate god is a humiliated god.

But even if the totalitarian state were psychologically the equivalent of the God of pre-Renaissance times, its acceptance in the twentieth century would be worse than an historical discontinuity. It would not be the exchange of the known for the unknown—a step in itself sufficiently frightening to deter the Hamlet in us all. It would be the exchange of the presently known for the formerly known and explicitly rejected, not by Protestants alone but also by counter-Reformation Catholics and by Jews in all ages—an act of social atavism, a return of the fugitive slave into the bondage from which he had struggled for centuries to escape. Against such a monstrous infidelity as an alternative, what boots it that the bid for liberty has not been made altogether good? In the light of the knowledge thus far gained, it is as easy to go forward as to go backward. The uncertainties ahead are appalling only if the certainties behind are less so; and four centuries of history tell us that they could not be.

It is not surprising, however, that we should be confronted with precisely the dilemma that we face. In the flush of early successes, the case for individualism came to be overstated. Discovery of the overstatement produced, inevitably, a strong reaction. The pity is that the individualistic trends should not themselves be recognized for what they were: a reaction against excessive authoritarianism. Rousseau's ecstasies over the Noble Savage were unfounded. The belief that natural man, uncorrupted by a restrictive social environment, was on a plane with the angels, was a mischievous exaggeration. But so also were the Doctrine of Original Sin and the belief that spiritual and social salvation depend upon abject submission to priestly and political hierarchies. The error in the latter view cannot be cured by fusing the two hierarchies into one and substituting the party line for the canon law. The error in the former view can be cured by recognizing its excesses and marking out the permissible limits of private action in the sundry directions already explored, and in any new or additional directions where future experience may discover similar dangers.

The state has no legitimate interest in the problem of good and evil beyond the point at which it emerges from the cognate but more limited problem of the individual and the group. That is why I have limited our discussion to means and have omitted any reference to ultimate ends. For what is the ultimate end of organized society other than continuously to provide all of its citizens with the most favorable environment possible for their pursuit, as individuals, of their own ideals of self-realization, fulfillment or salvation? Not only for the citizens who may be peculiarly gifted, who are bent on excelling; but for *all* citizens, within the limits of whatever talents and sensitivities they may possess. Preferably not a wholly secure environment, for that would set arbitrary limitations upon the range of experimentation demanded by the human psyche; it would involve substantial sacrifice of values also present in a well-rounded conception of a "most favorable" environment.

Definitely must the state refrain both from blazing trails through the realms of the spirit which the individual must traverse alone, and from keeping him under surveillance as he travels. There should be neither state sponsorship nor suppression of any religion whose teaching and practice are not antisocial. There should be no burnings of books, no interference with academic freedom, no attempt to fix the canons of taste in the fine arts. The state which achieves these objectives, both of action and restraint, will have achieved social justice. That is the highest moral plane to which it should aspire, for it is the highest which it can, in any case, attain.

The best that can be hoped for the democratic-capitalist state is that it would have these characteristics. Clearly they are individualistic in ultimate moral purpose, though less so in the details of methodology than those upon which the classic ideologies of capitalism relied. In their treatment of individualism, therefore, the ideologists of democratic capitalism would need to exercise caution, lest they be misunderstood. The formula of language they require is one which would dissolve the seeming dichotomy between the concept of the individual and the concept of the group. In the good society there would be no such dichotomy. Devotion to the group is one of the highest forms of individualistic self-expression. Devotion to the individual is the highest purpose of which any group, including the state, is capable.